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THE RATEPAYER'S MONEY

by

ARTHUR COLLINS

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"MUNICIPAL FINANCE FOR STUDENTS,"

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The Ratepayer's Money

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W. IVOR JENNINGS

Author's Preface

IT WILL be observed that the title of this book, *The Ratepayer's Money*, is a free and easy one, almost journalese, in fact. The reason is that it is not intended to be a technical treatise, but a series of popular articles such as might ordinarily appear in Press columns rather than in a learned book. In writing about local government, and particularly its financial aspects, an author may be criticized either for writing above the heads of his readers or coming down to such a low plane as to presume lack of intelligence amongst his readers. A happy medium is not easy to find, but in case of doubt it is the point of view of the layman which is considered in these essays, rather than that of the professional. If that should involve condemnation by some stern critic, so be it. One may be comforted by the thought that for every professional writer or reader there must be thousands of ratepayers—pure and simple.

The ratepayer often thinks of his money as being that in his name in the bank or in his pocket. When he parts with it to the local council it seems mysteriously to become someone else's, outside his control, money lost for ever. In point of fact, when rates are paid by ratepayers to the local council, the money is still theirs, collectively. Individual owner-

The Ratepayer's Money

ship of the cash has ended, but communal funds can only be spent upon purposes authorized by law and by local sanction, which means the sanction of the people who have paid rates, either directly or indirectly. Quite commonly the interest of the ratepayer in his money ceases when he pays his rates. The reader of this little book may be able to trace his funds to their destination in the maintenance of public services which he may take as a matter of course, but which can only be sustained by the devotion of members of local councils to their public duties, as well as by the use of the ratepayers' money.

My grateful acknowledgments to my friend, Mr. John J. Clarke, for his help in the preparation of this book for publication, are duly recorded.

A. C.

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THE RATEPAYER'S MONEY

CHAPTER I

Why are Rates Levied and not Other Forms of Local Taxation?

IT IS common knowledge that although national taxation finds its incidence resting on a person's income or consumption of dutiable articles, the local ratepayers' share the annual burdens of local government according to the value of the property they occupy, whether for private or business purposes, no matter what their personal income may be. When we receive our Rate Demand Notes, we feel this is indeed the truth.

In order to find the origin of our present system of rating and to understand why rates are levied and not other forms of local taxation, we must go back over three hundred years in the history of the country, to a time when the population of the whole country was considerably less than that of Greater London to-day, and when the various parishes were almost entirely isolated from one another owing to the meagre and scant means of communication which existed in those days.

The Ratepayer's Money

At that time there were no local authorities in existence as we find them to-day, but whenever people are gathered together in communities the necessity arises for common services, for which it is necessary to raise money. Among the common services, in those days, was the relief of the poor, and before the dissolution of the monasteries that relief was largely the concern of the Church supplemented by bequests and charitable institutions.

When the monasteries were dissolved about the middle of the sixteenth century there was a shortage of these services, but it was still sought to meet that shortage by voluntary contributions. As to what was meant by voluntary contributions we may gather from an early statute of Elizabeth, 1562-3, which tells us that when the bishop was unable to overcome "the obstinacy and frowardness" of a person able but unwilling to contribute, he was authorized to send the refractory individual to the county or town justices of the peace, and these were empowered to "sess, tax and limit upon every such obstinate person, according to their good discretions, what sum the said obstinate person shall pay weekly towards the relief of the poor." There does not appear in this to be any question of limiting the giving of alms either to ability arising from property in the parish only, or to occupiers and not to owners of houses.

Why Rates?

The Poor Relief Act, 1601, from which the present rating system still derives its authority, was to a great extent the statutory consolidation of the system of maintenance of the poor which had existed for some generations. It turned the voluntary contribution into a rate and made that rate compulsory. The statute gave overseers of the poor, who were appointed in every parish, power to raise by taxation of every inhabitant and every occupier of lands, houses and other properties competent sums of money for the relief of the poor, which sums were to be gathered out of the parish according to the ability of the parish to pay them. And when the Act here says "the ability of the parish," it can only mean the ability of the inhabitants and occupiers.

How has it come about, then, that the inhabitant, as such, is no longer rateable and valuation is concerned only with the occupier?

In 1633 Sir Anthony Earl complained "that he having divers tenants which paid rent unto him, they did charge his tenants by their assessments and did charge him also."

Seeing that the inhabitants were to pay according to their ability, it is not surprising that in estimating Sir Anthony's ability to pay, the overseers should have taken into account his income from property. The court, however, sympathized with Sir Anthony and laid down three important

The Ratepayer's Money

rulings which were to have a vital effect on valuation for rating:—

(1) That inhabitants were to be assessed according to their visible estate, both real and personal;

(2) But only in regard to the visible estate the inhabitant had in the town where he did dwell; and

(3) That by the words and meaning of the statute 43 Eliz. c. 2. (1601) they (the overseers) are to assess the occupiers of the land, and not the lessor who received the rents; the occupier being by law only to pay the assessments.

This was confirmed in another case, *Rowls v. Gells*, in 1776, where it was said, "The landlord is never assessed for his rent, because that would be a double assessment, as his lessee has paid before." Finally, to remove doubt and dissatisfaction, the Poor Rate Exemption Act, 1840, was passed to exempt inhabitants from liability to be rated in respect of ability derived from the profits of stock-in-trade or any other personal property.

So far we have considered only the service which was provided for the maintenance of the poor. Since those early years of the seventeenth century, many other services have come under the control of the local authorities, and the cost of these services is contributed by the ratepayer and the taxpayer as partners in a vast enterprise which we shall consider in the succeeding chapters.

Taking, as an example, the figures of a provincial city, we find the net cost of the Rate Fund Services apportioned as follows:—

Why Rates?

	<i>Per cent</i>
Public Assistance	23·0
Education	17·3
Municipal Hospitals	14·7
Highways and Bridges	7·8
Police and Fire Brigade	6·8
Cleansing and Refuse Collection	6·3
Administration	3·9
Mental Hospitals and Mental Deficiency	3·8
Public Health—Miscellaneous	2·6
Sewers	2·4
Street Lighting	2·2
Parks and Gardens	1·8
Housing and Town Planning	1·7
Maternity and Child Welfare	1·6
Libraries, Museums, Arts and Music	1·6
Bath and Wash-houses	1·1
Miscellaneous	1·4
	<hr/> 100·0

These figures indicate the great advance in the Social Services, which have become a prime necessity particularly as a result of the Industrial Revolution of the eighteenth century and the changed views which social and economic conditions have made evident, particularly since the publication of the Reports of the Royal Commission on the Poor Law and the Relief of Distress in 1909. But even so, the post-war period has also affected this call upon the ratepayer's money, as will be shown from a consideration of the Ministry of Health's Statement of Rates and Rateable Value for the Financial Years 1913-14 and 1934-5 in each of the 1,087

The Ratepayer's Money

boroughs and other urban districts and 539 rural districts.

	<i>Year ended 31st March</i>	
	1914	1935
	£	£
Total receipts of local authorities		
from rates	71,276,000	152,900,000
Value upon which rates are levied	211,563,000	285,291,000
	£ s. d.	£ s. d.
Average amount of rates collected		
(a) Amount in the pound	6 8½	10 8½
(b) Amount per head of estimated population	1 18 11	3 15 9½

The percentage increase in average amount of the rates in the pound is 59.

The extreme range of the amounts in the pound levied in the year 1934-5 was

(a) In urban areas from 5s. od. in Roxby-cum-Risby (in Lincoln, parts of Lindsey) to 27s. 6d. in Merthyr Tydfil County Borough; and

(b) In rural parishes, from 3s. 4d. in a parish in the county of Westmorland to 25s. 3d. in a parish in Carmarthen.

It is a tribute to the genius of the English race in adapting itself to any administrative arrangement, that the rating system has been able to meet the demands made upon it. By the Rating and Valuation Act, 1925, rating areas and rating authorities were reduced from 14,330 to 1,770. The assessment committees which fixed valuations of property on

Why Rates?

which to levy rates, i.e. rental values, were reconstituted, 343 committees taking the place of 600 under the old system. In regard to administration, these new bodies were much better equipped than those they replaced, for they had power of inspection and power to demand information about the properties they were to value. County valuation committees correlate the work of rating and assessment committees with a view to ensuring uniformity in the ascertainment of rental values throughout the whole county, and there was also set up a Central Valuation Committee to promote uniformity throughout England and Wales.

In general, rating authorities are able with the assistance of their officers to arrive at a fair and reasonable valuation of the great bulk of the hereditaments in their areas without employing or retaining professional assistance for the purpose.

County valuation committees usually appoint permanently a professional valuer known as the county valuer, and, as a general rule, he is available to local authorities for the valuation of special properties, and where the rating authorities require additional professional advice for the valuation of such properties the latter work in close co-operation with the county valuer.

So to-day we have in this country—except for the Drainage Rate—one rate—a General Rate—distributed to meet the expenses of all the local authori-

The Ratepayer's Money

ties discharging their functions in each local government district. The Special Rate leviable in Rural Districts may be considered as a variation of the General Rate rather than as a separate type of levy. We have, as a rule, no more than two authorities operating in any district—the town council alone in the county borough, and the county council for the administrative county, plus the town council in the smaller boroughs, or the urban or rural district councils in the other county areas. By this one General Rate levied only on property occupied, all expenditure of local councils other than that defrayed from State grants is met. It is often suggested that this should not be so, and that part of the cost of local government should be defrayed by special rates on land values, by a local income tax, by some rating of unoccupied property, and so on. These possibilities are considered in other parts of this book, but the way of the reformer, like that of the transgressor, is hard, as we shall see.

CHAPTER 2

Persons Liable for Rates

THIS CHAPTER, to be of any practical value to a student, is bound to be rather technical in its character.

The object of the whole system of rating law, built up partly by legislation and partly by judicial decisions, is to assess occupiers of rateable property equally in proportion to the value of their occupation. The sums assessed are collected as rates.

Rates are a charge levied compulsorily by a rating authority, the proceeds of which are applicable to public local purposes. They are levied on the basis of an assessment made usually upon the occupier in respect of the net annual value of occupied property.

The present system is based theoretically on the assumed annual rental or letting value of real property, and therefore it does not take into account personal property or income. Originally, personal as well as real property was rateable, but personal property was exempted by the Poor Rate Exemption Act, 1840.

Levy and Revision of General Rate

Under the Rating and Valuation Act, 1925, which applies to England and Wales outside London, the

The Ratepayer's Money

rating authority, in lieu of the Poor Rate and any other rate which they had the power to make, were required to make and levy for their area a consolidated rate termed "the General Rate" at a uniform amount per pound on the rateable value of each hereditament in the rating area (Section 2 (3)).

In boroughs and urban districts a consolidated General Rate was substituted for the various rates which formerly existed. In rural areas there is a General Rate, and Special Rates are also levied on those districts separately chargeable with special expenses (if any) as from the appointed day (April 1, 1927).

Subject to certain provisions, every General Rate is to be levied at a uniform amount per pound on the rateable value of each hereditament in the area. All the enactments relating to the Poor Rate which were in force at the commencement of the Act, including enactments relating to appeals against a Poor Rate, so far as they are not repealed, apply to the General Rate.

Operations and Incidence of Rate

A Special Rate on each parish or part of a parish separately charged with the Special Expenses under the Public Health Act, 1875, or the Lighting and Watching Act, 1833, has the same incidence as a Special Expenses Rate under the Public Health Act, 1875.

Persons Liable for Rates

Rating authorities are enabled to make rates now without the formality of allowances by Justices, and may make additions or corrections as the circumstances require.

An amendment was made in the definition of "the period of the rate." The contribution of an outgoing or incoming ratepayer to the General Rate of a half-year will correspond exactly with the portion of the half-year during which he is in occupation of rateable property.

Amendment of Rate

The Rating and Valuation Act, 1925, provides that the rating authority may at any time make such alterations in a rate as appear necessary, in order to make the rate conform with the provisions of the Act and any other enactments relating thereto.

Publication of a Rate

Notice of every rate shall be given by the rating authority within seven days after the making thereof, and the rate shall not be valid unless notice thereof is duly given in a manner for the time being required by law (Section 6).

The Demand Notes for Rates

are required to include information with regard to the matters which are given in the example printed in Chapter 5.

The Ratepayer's Money

Discount on General Rates

is provided for in Section 8, which authorizes the rating authority if they think fit by resolution to direct that an allowance by way of discount for prompt payment be made. The maximum allowance is $2\frac{1}{2}$ per cent of the gross sum payable.

Payment of Rate by Instalments

was provided for in the Poor Rate Assessment and Collection Act, 1869, which says that where a rate is made for a period exceeding three months the rating authority may declare it payable by instalments at specified times, and if so, each instalment should be enforceable as and when it falls due.

Precepts

which are requisitions made by spending authorities who do not levy rates on authorities that do are now to be sent to the rating authority instead of the board of guardians as formerly.

The General Rate

is made, levied, and collected, and recoverable in the same manner as the Poor Rate, and all the enactments relating to the Poor Rate, so far as not repealed by the Act, are applied to the General Rate. The Act, however, grants the power of remitting payment of the rate to the rating authority.

Recently, important changes have been made in

Persons Liable for Rates

the process by which outstanding rates may be recovered.

The Money Payments (Justices' Procedure) Act, 1935, provides in Section 10 that on an application for a distress warrant, the Justices must make inquiry in the presence of the defaulter whether his failure to pay is due to his wilful refusal or culpable neglect. Where satisfied that failure to pay is due to neither of these causes, they shall not issue a warrant of commitment.

The Justices are given power to issue a warrant of arrest to secure the attendance of defaulters for the purpose of the above inquiry, and a signed statement of wages is to be accepted as *prima facie* evidence of ability to pay.

The Act was passed as a result of the recommendations of a Departmental Committee, and the object aimed at is to reduce the number of debtors committed to prison. Already there is some criticism that this Act makes the way of transgressors too easy, instead of following the Biblical maxim that it is to be made hard. It is, however, rather early to judge by results.

Rate Compounding

In certain cases the payment of rates may be "compounded," and a word on this phase of rating is needed to explain the practice. Compounding may be either—

- (a) Compulsory; or
- (b) By voluntary agreement.

The Ratepayer's Money

(a) *Compulsory*.—"The rating authority may by resolution direct that, in the case of all hereditaments in their area (exclusive of hereditaments consisting of agricultural land) which belong to a class to be defined in the resolution by reference to the rateable value, and also, if rent is paid, by reference to the interval at which rent from time to time becomes payable or is collected, the *owners* thereof shall be rated instead of the occupiers" (Section 11 (1)).

It will be observed that Section 11 (1) applies to all hereditaments (with the exception of agricultural land) coming within the proviso next following that sub-section which expressly excludes hereditaments the rent of which becomes payable at quarterly or any longer intervals and of a higher rateable value than thirteen pounds, except in any area at which at the passing of the Act a higher limit of value was in force for the purposes of Section 3 of the Poor Rate Assessment and Collection Act, 1869, where the higher limit shall apply.

The rents had to be payable at periods less than quarterly for the section to apply, but by the Local Government Act, 1929, Section 71, it is optional, and not compulsory as formerly, on the local authority to define the properties to which Section 11 (1) is to apply by reference to the intervals at which rents are payable or collected.

It will be appreciated that all that needs to be done to institute the rating of owners of hereditaments coming within Sub-section (1) is that the rating authority should pass a resolution giving effect

Persons Liable for Rates

thereto. No agreement of any kind is necessary with the owner and thus this may well be called the "compulsory" clause.

The percentage of allowance for compounding the payment of rates to be given is a fixed one equal to 10 per cent of the amount payable but increased temporarily to 15 per cent at the option of the rating authority, and the important requirement is that the rates due should be paid before a certain date (or dates) fixed by the rating authority.

Where it is thought that a rateable value of £13 (the limit given) is too high a figure, it should be remembered that this is a maximum figure only. It is not necessary that this figure should be adopted. There is always great difficulty in fixing a maximum figure as a definite one for all parts of the country, for while £13 rateable would not represent a decent-sized dwelling-house in some large cities, there are many places in the provinces where this rateable value would be placed upon quite a nice type of dwelling-house and the adoption of which figure would bring within "compound limit" houses which previously had never been compounded. In such places a lower figure would usually be adopted in place of the maximum mentioned in this section.

At the same time, in those areas where a higher limit of value is legally in force for the purpose of Section 3 of the 1869 Act, such higher limit may remain in force as at present, as the maximum

The Ratepayer's Money

figure. The scope of these compounding arrangements thus depends both on local law and local circumstances.

(b) *Voluntary Agreement*.—The owner of any hereditament to which Sub-section (2) of Section 11 applies (that is to say, hereditaments the rent of which becomes payable or is collected at intervals shorter than quarterly) may, by agreement in writing with the rating authority, undertake in respect of any such hereditament either—

To pay the rates chargeable in respect of any such hereditaments (a) whether it is occupied or not; or,

(b) So long as the hereditament is occupied; or

(c) To merely undertake to collect the rates due from the occupier.

The maximum percentage allowances are 15, $7\frac{1}{2}$ and 5 respectively.

It is important to notice that such undertaking may be given in respect of any such hereditament. It is not necessary that an agreement should cover all the properties owned by the same person. He can enter into agreement in respect of any one or more properties. It is quite probable that in cases of bad tenants, owners would be more inclined to enter into agreements under 2 (c)—to collect only. Allowances made under this sub-section to an owner who is rated thereunder are in substitution for any allowances to which he might otherwise be entitled in respect of that hereditament under the preceding

Persons Liable for Rates

Sub-section 1 (a) (the compulsory clause). It is not competent to allow both a compounding allowance and a discount for prompt payment (Section 8) in respect of the same hereditament.

The percentage to be adopted (or allowed) is purely a matter of agreement as between the rating authority and the owner and there is no doubt that it will be possible in many cases to enter into agreements under this section by which lesser percentage allowances are given than those mentioned as maximum figures in the Act.

The chief difference between Sub-sections 1 and 2 is of course that the former if adopted by the rating authority is universally applicable to a whole "class" of hereditaments.

Another great difference is that whereas in the first case there is a limit of rateable value for "compounding" there is no such limit mentioned in Sub-section 2.

It would thus appear that agreements can be entered into on any and every level of rateable value.

It should be borne in mind that the compounding allowances are contingent on the rates being paid before the dates specified in the resolution or agreement as the case may be.

Sub-section 4 enacts that where an owner is rated or has undertaken to pay or collect the rates, the amount due shall be recoverable by the authority from him or his agent in the same manner and

The Ratepayer's Money

subject to the same conditions in and subject to which rates are recoverable from occupiers of rated hereditaments.

In conclusion, it may be added that rating law which determines the rights of persons to be rated or not to be rated, including the application of the compounding system, and its effects on occupiers of small properties, is intricate, and one cannot pretend to set out such law in paraphrases which have any great value to a lay reader, much less to a legal mind. It is only possible to offer a synopsis of the legal provisions which have to be taken into account by rating officials and ratepayers in the application of this law, and anyone desiring to consider its relevance to any case in which he is personally involved would, of course, seek legal aid in protecting his interests. The man who is his own lawyer has high authority for doubting his wisdom.

CHAPTER 3

The Basis of Assessment to Local Rates

PRIOR TO the passing of the Rating and Valuation Act, 1925, there were three different enactments governing revaluation for rating purposes, namely :—

The Lands Valuation (Scotland) Act, 1854, providing for an annual valuation.

The Union Assessment Committee Act, 1862, which left it to the Overseers or Assessment Committee to have a new valuation when they thought fit. This Act applied to England and Wales, excluding London.

The Valuation (Metropolis) Act, 1869, which makes a complete revaluation compulsory every fifth year in London.

The Scottish system has been amended only so far as the machinery for valuation is concerned, while the valuation in the Metropolis remains as before.

It is important to appreciate the necessity for a uniform basis for the rateable value of property, as these valuations constitute the basis of contributions towards public expenditure. As already stated, the annual value of property occupied is the measure of rateable value. Various classes of property rated

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include land, houses, shops, manufactories, railways, etc. In the past there have existed different valuations for different purposes, e.g. Poor Rate, General District Rate.

Various attempts have been made to secure uniformity in valuation throughout the Kingdom, but it is not yet possible to affirm that they have been successful. We may hope that uniformity may be achieved by stages in later years.

The Rating and Valuation Act, 1925, Part II, is concerned with Valuation, and it will be clear from the references made to it already that it represents a milestone on a long road.

Under the Statute of Elizabeth, no guidance was given as to how the inhabitants who were to be rated should be assessed, and the result of that lack of guidance was an absence of anything like uniformity in method, much less in results. This condition continued unchanged for a very long time; in fact, until the Parochial Assessment Act, 1836, was passed, which, for the first time, laid down the basis upon which valuation should proceed. In that Act it was provided that—

No rate for the relief of the poor in England and Wales shall be allowed by any Justices or be of any force which shall not be made upon an estimate of the net annual value of the several hereditaments rated thereunto, that is to say, of the rent at which the same might reasonably be expected to let from year to year, free of all usual tenant's rates and taxes and tithe commutation rent charge, if any, and deducting there-

The Basis of Assessment

from the probable average annual cost of the repairs, insurance, and other expenses, if any, necessary to maintain them in a state to command such rent.

That was a provision which constituted for the first time a definition of net annual value on the lines generally adopted to-day. But although that basis provided that the valuation in an individual parish should be uniform, it did not provide that the same basis should be used in different parishes, and so the Union Assessment Committees Act, 1862, was passed, which gathered together the different parishes into unions, setting up in each union an assessment committee which dealt with the whole area of the union, and so providing for a greater degree of uniformity in the system over a district larger than the parish itself. Even under that Act no scale of deduction for the maintenance of the property was laid down, and there was no provision for periodical revaluations. That Act continued in force until April 1, 1927, and it may readily be understood what was the position prior to that date. To take the case, for instance, of a borough which included areas situate in two separate Poor Law unions. It was extremely difficult, if not impossible, to impose an equal rate over the whole borough, the valuations being on different bases in the two unions. Thus one area in the same town might have been revalued quite recently, while the other had not been revalued for a very long time. So notorious

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had this want of uniformity become that, outside London, it was possible to have no fewer than three valuations for rating purposes. There could have been one for a borough, another for the county, and a third for the Poor Rate, not to mention a fourth for purposes of Income Tax. The great development of local government and the institution of large areas which are to-day covered by one service carried on by local authorities, made it imperative to endeavour to get uniformity over a very much larger area than hitherto, and to arrange that the area over which that uniformity should be attained should be coincident with the local government boundaries. Consequently, the Act of 1925 set up new valuation areas which, instead of being areas of unions—of Poor Law authorities—are in the case of a county borough the area of that borough, and in the case of a county areas delimited by the council of the county, after consultation with the rating authorities in the county, and approved by the Minister of Health. For each of these new valuation areas an assessment committee is appointed, by the town council in county boroughs, and in the case of the county by the county council and the rating authorities in the areas concerned. In a further effort to improve the practice in large areas, County Valuation Committees are established comprising members of the county council and members of the various assessment committees in

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the area. These County Valuation Committees are expressly directed to hold conferences at which may appear members of the assessment committees in county boroughs, as well as those in the county itself, and in this way it is hoped that a much greater amount of standardization will be achieved than was possible in former circumstances.

It is considered essential by all good judges that the assessment committees should represent adequately the local authorities who are responsible for the bulk of the expenses. There have been great changes in this respect in the position of those who are responsible for the administration of poor relief compared with the other local authorities.

For instance, in 1840 the total amount raised by rates in the country was just over £8,000,000 and out of that sum £4,750,000 was raised for the Poor Rate alone, and only a little over £1,000,000 was raised for the purpose of county authorities and municipal corporations. That offers a striking contrast to the conditions in 1925, when the total amount raised in rates had risen to £142,000,000, and out of that only about £31,000,000, or 22 per cent, was attributable to the expenses of the guardians and overseers of the poor. It shows the change in the relative importance in value of these two sets of authorities, and a justification—if justification were needed—for the setting up of the new assessment committees under the Act.

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The valuation area is usually therefore a large area comprising several rating authorities, and the assessment committee which represents that larger area may be regarded as a sort of court of appeal who have to consider the valuation lists presented to them by the rating authorities representing the smaller areas comprised in the valuation area.

It is provided in the Act (Section 19) that the rating authority are to prepare a new valuation list every five years, in that respect following the practice of London. It is further provided (Section 20) that the values contained in the list shall be conclusive evidence as to the values of the hereditaments included in the list for the purposes of juror's qualification and for determining values of premises under the Licensing Act of 1910.

In the Second Schedule to the Act will be found a fixed scale of deductions from rental (gross) values to arrive at the net amount, on which rates have to be paid, giving municipal valuations a foundation which had hitherto been conspicuously lacking.¹ Moreover, the ideal of a single valuation had been recommended for years past by Royal Commissions, by committees, by associations of local authorities, by surveyors' institutions, and so forth. In the Report of the Royal Commission on Local Taxation, issued in 1901, is the statement:—

¹ This Schedule has been amended temporarily by Acts of 1928 and 1932.

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A general desire has been expressed by most of the witnesses, and in a number of resolutions which have been forwarded to us by public bodies, that it is desirable to have one valuation authority, and one system of arriving at calculations for the whole rating area over which common rates are raised; that upon such valuation all rates and taxes both for local and Imperial purposes, should be charged and levied; and, further, that, if possible, provision should be made to obtain uniformity in valuation throughout the whole country.

In evidence which was given before a Departmental Committee on Local Taxation in 1912, a distinguished surveyor, Mr. (subsequently Sir) Herbert Trustram Eve, said:—

We are unanimous in thinking that we want one rateable value for rates and taxes, and we took a leading part under the Bill of 1904 in that direction. I personally was one of the deputation of three that went to see Mr. Long. We asked for that, and we pointed out in our memorandum . . . that there were five rates and taxes which could have different totals presented to the ratepayers. . . . The answer of the Local Government Board was that they had nothing to do with Somerset House, and we ventured to say that we wanted to talk to the Cabinet and not to the President of the Local Government Board; we wanted some Government to bring in a Bill that was above the Local Government Board and above Somerset House, so that we could have one rating value for Schedule A, poor rate, and Inhabited House Duty, so that the ratepayer would have merely an account that he could really remember and pay everything on. We were told we could not have it, and the matter dropped; but I do hope that this Committee will seriously take it into consideration, because that is what the public want.

We may now discuss definitions of “values” for rating purposes. There are several to be

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kept in mind, and they are all important for the ratepayer:—

(1) *Gross Value* means the rent at which a hereditament might reasonably be expected to let from year to year if the tenant undertook to pay all usual tenant's rates and taxes and tithe rent charge, if any, and if the landlord undertook to bear the cost of repairs, insurance, and other expenses, if any, necessary to maintain the hereditament in a state to command that rent (Section 68).

(2) *Net Annual Value* is defined in Section 22 (*b*) as: "The rent at which the hereditament might reasonably be expected to let from year to year if the tenant undertook to pay all usual tenant's rates and taxes and tithe rent charge, if any, and to bear the cost of the repairs and insurance and other expenses, if any, necessary to maintain the hereditament in a state to command that rent." The above applies to hereditaments which are not set out in Part I of the Second Schedule to the Act; and in the case of all properties in this schedule the net annual value is the gross value, less the statutory deductions specified.

(3) *Rateable Value*.—Before dealing with this term, be it remembered that a *Rate* means a rate the proceeds of which are applicable to local purposes of a public nature, and which is leviable on the basis of an assessment in respect of the yearly value of property.

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Ascertainment of Rateable Value

Section 22 deals with the ascertainment of rateable value, and is as follows:—

(a) If the hereditament belongs to one of the classes specified in the first column of the table contained in Part I of the Second Schedule to the Act there shall be deducted from the gross value of the hereditament an amount representing the deduction specified with respect to hereditaments of that class in the column of the said table and the gross value as so reduced is in the Act referred to as the net annual value.

(b) If the hereditament is not such a hereditament as is mentioned in paragraph (a), there shall be estimated the rent at which the hereditament might reasonably be expected to let from year to year if the tenant undertook to pay all usual tenant's rates and taxes and tithe rent charge, if any, and to bear the cost of repairs and insurance and the other expenses, if any, necessary to maintain the hereditament in a state to command that rent, and the annual rent as so estimated shall, for the purposes of this Part of the Act, be taken to be the net annual value of the hereditament.

(c) The rateable value of a hereditament shall be taken to be the net annual value thereof as ascertained under paragraph (a) or paragraph (b), as the case may be, except that if the hereditament belongs to one of the classes specified in the first column of the table contained in Part II of the said Schedule, its rateable value shall be taken to be the amount produced by making from the net annual value such deduction as is specified with respect to hereditaments of that class in the second column of the said table.¹

(d) If the amount of the net annual value and of the rateable value, in a case where those values are the same, or in any other case the amount of the rateable value, includes a

¹ This Schedule has been amended temporarily by Acts of 1928 and 1932.

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fraction of a pound, the amount of both those values or of the rateable value, as the case may be, shall be increased or reduced, to the nearest complete pound, or if the fraction is ten shillings the fraction shall be disregarded.

Making a Valuation List

The procedure as regards the draft list laid down by the Act is most technical, and requires a close study of the provisions of the Act, wearisome to all but experienced officials. Furthermore, it is more important to the average reader to know how he can protect himself, when included in the valuation list, rather than how he comes to be in it.

The general procedure for the preparation and deposit of the draft list, the hearing of objections to and the revision of the list by the assessment committee and final approval thereof are set out in detail in Sections 25 to 30 and Schedule IV, so that he who runs may read—if he wishes.

Objections

Notice of objection must be lodged with the assessment committee within 25 days of deposit of the Draft List. Some of the chief considerations affecting the making of objections are briefly set out in the following paragraphs.

The assessment committee hold meetings for the purpose of considering these objections. At these meetings the objector can be heard as also can the occupier (i.e. in cases where the objection is made

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by a person not the occupier), the rating authority and the County Valuation Committee. Any person who is properly authorized by the objector may appear before the Assessment Committee.

The Assessment Committee may consider objections for which proper notice has not been given if the various parties, entitled to notice, give their consent.

Objections may be made by "any person aggrieved" by the inclusion or otherwise of any matter in the Draft List. Consequently an aggrieved person is not limited to objecting against his own valuation. He may object that the assessment of another person's property is too low, or that a certain hereditament is omitted.

It should be kept in mind that failure to lodge an objection to the Draft List does not rob the aggrieved person of all chances to air his grievances during the currency of the List. If a person fails to object in the time allowed he is always at liberty, when the Draft List is duly approved, to make a proposal for the amendment of the list (Section 37). If the Committee authorize an amendment it will operate retrospectively.

A person seeking an alteration in the current list, that is the approved list when in force, must make a "proposal" for the amendment of the list. Notice of the amendment required must be given to the occupier or owner as the case may be, who in turn

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may object thereto. Any party aggrieved at the decision of the Assessment Committee may lodge an appeal. The notice of a proposal must be made in writing and must specify the grounds on which it is supported.

In addition to objections by individual rate-payers, a County Valuation Committee, desiring to avoid inequalities between one district and another in the same county, may make objections to valuations or appear as a party to any objection or appeal. It is no argument in defence against such an appeal that the effect of a decision by an assessment committee will be to make other properties proportionately under-valued, if, in fact, that valuation fixed for properties whose assessment is objected to is correct (*Lilley and Skinner v. Essex County Valuation Committee* [1935], 51 T.L.R. 432 (Div. CI)).

The assessment committee must within three days after objection is lodged cause a copy to be sent to the rating authority, and where the objection relates to a particular hereditament, to the occupier (Fourth Schedule, Part II (2)).

Revision of Draft Valuation List by Assessment Committee

The procedure laid down for bringing a draft list a stage forward towards completion is as follows:—

(i) The assessment committee to hold meetings to hear objections and otherwise to revise the list (Section 27).

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(ii) Meetings to hear objections cannot be held until 30 days from date of deposit, unless the number of objections received at an earlier date makes it desirable to hold an earlier meeting and the rating authority acquiesce (Fourth Schedule, Part III (i)).

(iii) At least 14 days' notice to be given of a meeting (other than an adjourned meeting) by the assessment committee to rating authority and objectors, to hear objections (*ibid.* (2)).

(iv) Notice of a decision to be sent to the objectors and occupier of the hereditament affected and to the rating authority (*ibid.* (5)).

(v) Notice of any insertions in draft list or of any increase made otherwise than on objection to be given to the occupier, with an intimation that an objection may be lodged by any person. The procedure to be followed in dealing with objections to any alterations, insertions or corrections made by the assessment committee on the revision of the draft list otherwise than in determining an objection is substantially the same as in dealing with objections to the draft list.

Final Approval of Valuation List

When the above-mentioned machinery has run its course, the steps for bringing into effect follow, namely:—

(i) First list to be finally approved on January 31st of the year in which it is to come into force (Section 28 (1)). The alternative date, July 31st, apparently relates to a list retarded or accelerated under Section 19 (1) (a).

(ii) The committee may approve the list although they may not have disposed of all the objections by that date, leaving those left over to be dealt with as soon as possible afterwards and with the like consequence as if it had been a proposal for the amendment of the current list (Fourth Schedule, Part III (10), Section 37).

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(iii) The approved list, duly certified with signatures of three members, to be sent to the rating authority for deposit at their offices and notice thereof to be given to the clerk of the peace for the county or borough concerned; total of valuations for rating area and each parish must be inserted in the list with a declaration of approval and certificate of compliance with the Act must be appended (Section 28 (1) (4)).

(iv) Re-deposit as amended by the assessment committee is abolished, as well as the appeal to special sessions. It is to be particularly noted that special notice must be sent within seven days of deposit to every ratepayer affected by a new assessment (Fourth Schedule, Part I (3)).

In other respects the time-table is left to be settled locally.

Section 25 (2) provides that a copy of the draft list is to be transmitted to the assessment committee by the rating authority. It is the duty of the assessment committee to revise such list, from time to time, in accordance with the changes made in the draft list, of which it is to be a copy.

Appeals to Quarter Sessions

Section 31 provides that any person who appeared before the assessment committee on the consideration of a proposal or an objection may appeal to Quarter Sessions against the decision of the committee.

Section 32 (8) provides that where the rateable value does not exceed £100, any party may appear before a committee of Quarter Sessions by solicitor instead of in person or by counsel.

Any person on whom a notice of appeal is served

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may appear as respondent; provided that where there is more than one respondent, the appellant can only be ordered to pay the costs of one of the respondents. If costs are ordered to be paid to the appellant the Court may apportion those costs among the respondents.

Appeals to High Court

Any party to the appeal may, if dissatisfied with the decision of the Court on a point of law, make an application within 21 days to have a case stated for the opinion of the High Court on the point of law, and with the appropriate approval, from thence to the Court of Appeal, and the House of Lords, whose decision is final. The parties to an appeal may agree to refer the matter to arbitration or to appoint a valuer.

General Note

Up to this point, as one must know one's alphabet before writing at all, we have been compelled to take note of the rudiments of making law and practice, to see the local machinery and how it functions, and to observe the care and precision by which the amount of the valuation on which rates are based is fixed, so far as the law can ensure it. We are still left to contemplate the scope there is for adopting a hard or an easy attitude towards valuations according to the outlook of the various rating bodies working under the same law, and last

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but not least, great variety in the degree of efficiency in carrying out valuation duties. Let us leave it there and pass on to discuss the more popular or topical aspects of rating in this country.

Benefits Received, or Ability to Pay

Reference is often made to rating "in proportion to ability to pay." It has an attractive ring about it, but it is a most controversial matter. The services rendered by the local authorities, for which charges are made which the community pays through the rates, can usually be divided into two main classes—national or semi-national on the one hand or local on the other. The former are often looked upon as onerous charges and the latter are considered to be beneficial charges. This, however, is only a bird's-eye view of a national character, for to a man with a small family at school, paying the education rate, which is less than the cost price, the education service may appear beneficial, while the sewerage rate, if he is not in a house connected to a sewer, would appear to him to be onerous. Under the heading of onerous charges in the national sense, however, could be included the costs of the administration of public assistance (formerly called poor relief), education and main roads. Those duties approximate closely to the services which are rendered by the national Government, and are in a large measure paid for by the taxpayer whether he

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is a ratepayer or not. So closely do they accord with national services that the practice to-day is constantly extending in the direction of making them a national charge. They are partly defrayed as a national charge, as we shall see later, in that Exchequer Grants are provided on a percentage basis representing about one-half of the total annual cost, and yet the balance of the expenses on these onerous services absorbs at the present time about one-third of the total amount levied as on rates. The other two-thirds, represented by the cost of beneficial services, should not, according to theoretical principles, be chargeable in accordance with ability to pay, but according to the extent of the benefits received.

Now there is at present no close correspondence between rates paid and benefits received, so far as the individual ratepayer is concerned. All rates are paid by all occupiers of property—in small houses, as we have seen, by payments to the landlord with the rent—at a flat level. A ratepayer cannot say, “I have no children, therefore I will pay no part of the education rate.” The sum he pays as the rate for education goes to cover the rate-borne cost per child in providing schools and teachers for the children of others. The education rate on a small house does not pay anything like the cost of educating one child. Any home into which public assistance money is going, to keep the family while the bread-

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winner is out of work and disqualified from insurance benefit, may be unable to pay any rates at all, though out of the rates paid by others he and his family are being kept. So it is obvious that liability to pay rates is not governed by (or even remotely related to) the benefits directly derived by any single ratepayer from the public services furnished out of rates. Indirectly, the doctrine is, all ratepayers benefit by the care of the poor, the education of children, the maintenance of parks, hospitals or sewers, whether these latter amenities are used by every ratepayer or not. Attention to these matters is an essential condition of a well-managed community. They are the price all must pay for public welfare.

Rates are therefore based upon the ratepayer's ability to pay as measured by the rental value of the property occupied for housing or business purposes. This is a crude measure, admittedly, and is by some considered to be no measure at all. It is to some extent corrected by the part which the national Income Tax plays, in that out of every twenty shillings paid in national taxation of all kinds (Income Tax yields 39 per cent of it), a taxpayer contributes approximately 3s. 4d. to be handed over by the Chancellor of the Exchequer to local councils as grants-in-aid of local rates. Whether this two-edged sword carves fairly the goose that lays the golden eggs, if such a mixed metaphor can be pardoned, we may now proceed to consider.

CHAPTER 4

The Relationship between Rates and Grants or Other Income

THE SOURCES of the income of local authorities may be classified into four groups, viz:—

- (1) Local rates,
- (2) Exchequer grants,
- (3) Specific income, and
- (4) Transfers from trading accounts.

The following table shows the amounts derived from these sources for the year ending March 31st, 1934—the last official reports available—together with the percentages of the total for each class:—

RATE FUND SERVICES: 1933-4		
ENGLAND AND WALES		
	<i>Million £</i>	<i>Per cent</i>
INCOME ON REVENUE ACCOUNT:		
Rates	148·6	45·64
Government Grants—		
Grants under the Local		
Government Act, 1929	45·4	13·94
Other Grants	75·5	23·19
	———— 120·9	———— 37·13
Specific Income	54·2	16·65
Transfers from Trading A/cs	1·9	·58
	————	————
Total Income—Revenue A/c	£325·6	100·00

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On this analysis of the total income one may immediately ask why there should be these differing sources of revenue and upon what principle, if any, is income derived from each source.

(1) Local Rates

The principle underlying the raising of funds by means of the levy of rates and taxes has already been indicated, namely, that there is common liability for the cost of public services from which there is common benefit or in which any member of the community may participate if necessary. For example, although no individual may desire to be in the unfortunate position to have need to apply for public assistance (poor relief), the service is provided for all who may be destitute, and, furthermore, the whole community benefits from such expenditure in so far as it is to the general public advantage that the hungry should be fed, the naked clothed, the homeless sheltered and the sick tended. It is considered infinitely better to meet the cost of bringing a measure of relief to the miseries of the poor than have to repair the ravages of destitute and hungry people. Although in the case of some rate-aided services the operation of this principle may be found to be rather remote, it can invariably be traced.

It has also been shown that local rates, which were originally intended to be levied upon the basis

Rates and Grants or Other Income

of the inhabitant's ability to pay measured by the value of all his property visible in the local area, by spasmodic and not very rational legislative changes, have become chargeable upon the basis of the annual letting value of real property occupied within the local area. One might amplify the previous general comment on this feature of local rating by pointing out that there are many elements which govern the occupation of rateable premises other than the wealth (or ability to pay) of the occupier. A house of small rateable value may satisfy a married couple of substantial means but without children, whereas a much poorer man having the responsibility of a family of several children, for the sake of decency, if for no other reason, may have to occupy a house of much larger rateable value. A manufacturer's agent, without the necessity of stocking the goods he factors, may find that comparatively small and inexpensive office accommodation will satisfy his requirements, whereas a builder's merchant requires comparatively extensive premises. So be it, one may say; but how much of local expenditure should be defrayed out of rates, and how much should be contributed by the taxpayer who is directly taxed according to his ability to pay, or according to his consumption of dutiable articles yielding indirect taxation? Let us look then at the part that taxes play in local government finance. They foot the bill to the extent of nearly 40 per cent.

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(2) *Exchequer Grants*

Five important reasons may be given to explain the payment of Exchequer Grants in aid of local rates. In the first place, taxes fall to be borne according to ability to pay to a far greater degree than local rates. Secondly, many persons who escape payment for benefits out of local rates are caught in the net of the tax collector. Owners of personal and movable property, owners of unoccupied land and buildings, lodgers and unmarried sons and daughters, may be quoted in this connection. In the third place, taxable capacity is much more flexible than rateable capacity. An increase of rates has to be met out of the income of a business irrespective of whether it is remunerative or not, whereas Income Tax is only payable out of profits actually realized. Fourthly, many of the services administered by local authorities are not purely local services but are national services which local authorities are required by statute to carry out and to administer according to a national standard of efficiency with a view to establishing, as far as possible, a measure of uniformity in all areas. Educational and police services may be quoted in this connection. Finally, inequalities in local burdens can be smoothed out, or excessive burdens mitigated, by means of grants-in-aid which may be made to vary with the needs of the area or its ability to bear the burden of expenditure. In this connection may be quoted the effect of the highly rated area grant

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for education, the increased housing grants in agricultural areas and where sites are costly, and the “weighting” characteristics of the formula for the distribution of the block grant—the general Exchequer contribution.

(3) Specific Income

It has been shown that 17 per cent of the total receipts of local authorities is derived from sources other than rates and grants. The following table indicates the chief items of receipt in this connection:—

<i>Head of Account</i>	<i>Item of Income</i>
Education	. Endowments. Sale of articles made and grown in schools. Contributions from parents. Contributions from other local authorities. School fees.
Public Health	. Sale of farm produce. Sale of materials salvaged from refuse. Recovery of hospital maintenance. Baths receipts. Recreative services charges, e.g. bowling-green receipts. Private improvement expenses. Meter testing. Fines and penalties. Sale of burial rights. Market stallages. Betterment values.
Public Assistance	. Property of chargeable persons. Receipts from liable relatives. Relief recovered from chargeable authorities.
Miscellaneous	. Housing and other rents. Licence fees, e.g. sale of poisons.

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(4) Transfers from Trading Accounts

Considerable controversy has ranged around the problem as to whether it is wise or expedient to transfer surplus profits from trading services in aid of local rates. Changed conditions in transport services have made it difficult for many transport undertakings, which at one time provided considerable surpluses, to yield an excess of income over expenditure sufficient for the adequate maintenance of their necessary reserves. This situation has caused many previous advocates of the transfer of these trading profits in aid of rates to revise their opinion. If large sums may be transferred as rate aid in years of prosperity, instead of writing off debts for borrowed money, or for setting aside reserves and so on, there is little option to do other than bear the deficiencies of years of depression out of rate income.

The primary purpose for which local authorities entered the field of these utility services was to provide for the community the certainty that these amenities would be continued, even under adverse financial conditions, and a cheap and abundant supply or service guaranteed to the community. It may not be considered equitable that the ratepayer who does not use the local authority's transport services should either have to contribute to any loss or participate in any profit connected with that

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undertaking. It is a good debating point, anyway, and one which is frequently discussed.

With regard to gas and electricity undertakings it is now more or less established by Parliamentary practice that domestic and industrial concerns—particularly the latter—should secure these utilities at the cheapest possible cost, rather than contribute towards deficiencies or share with other ratepayers any surplus derived from higher prices for lighting and power.

Frequently there is to be heard the criticism that the reserves of public undertakings may be starved and their efficiency imperilled by anxiety to show a surplus for transfer in aid of the rate fund. For example, where it is desirable to transform a tramway undertaking into a trolley-bus or motor-bus service it may be found that by a practice of constantly transferring funds in aid of rates, insufficient reserves remain to facilitate the change over—a serious impediment to such an improvement.

On the other hand, although it may be nothing more than a psychological illusion, manufacturers do inquire as to the rates of a town when considering the establishment of an industry there, and in this way low rates attract new industries and residents to a town.

The rate fund should be credited with the cost of any services rendered to a trading department, whether it be the service of the officials of adminis-

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trative departments or efficiency services rendered to the undertaking, such as the reduction of interest charges or the advantages of a consolidated loans fund. This should be done according to recognized accountancy principles by transfers to and from the proper accounts according to the value of the services rendered, and not in an arbitrary manner by the transfer of profits.

There are exceptional circumstances under which these normal principles may not always apply. Seaside resorts, which provide services for visitors rather than for their residents, consider they are undoubtedly entitled to earn profits on the "attractions" provided by them.

The conclusions to which most experienced observers come may thus be summarized:—

Exchequer grants correct to a considerable extent the difficulties with regard to local rates in respect of—

- (a) Ability to pay;
- (b) Exemption of certain classes;
- (c) Capacity to expand with requirements;
- (d) National services locally administered;
- (e) Inequalities of local burdens.

Services which are not compulsory, or which are not likely to be required by all ratepayers, should be paid for as far as possible by beneficiaries.

Trading surpluses or deficiencies should be rectified by adjustment of prices and not by rate aid or by rate subsidy.

Trading services should repay to the rate fund the cost of all services rendered to them.

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As to the proportion of the cost of local services which should be borne by the ratepayer as such and the taxpayer respectively, it will be observed that out of every £100 the former pays £45½ and the latter £37. Local authorities are always seeking for more money from the Exchequer, and many of their spokesmen aim at an approximately equal share borne by the locality and the nation respectively. The present Chancellor of the Exchequer (Mr. Neville Chamberlain) established the present basis by the Local Government Act, 1929, and on the outlook of to-day it may be some time before the respective positions of the two contributories are reconsidered.

CHAPTER 5

The Expenses Borne by Rates

IT HAS already been stated that the services which local authorities are called upon to perform are sometimes classified into two divisions, viz. "onerous" services and "beneficial" services. Such services as education, public assistance, police and highways, streets and bridges, may be considered as onerous services. On the other hand, public health, including housing, fire brigade and lighting may be considered as beneficial services. It is, of course, not altogether easy to distinguish between the two groups of services but such classification convenient for our present purpose. In what manner these services are distributed may be indicated from a statement of the Rate Services 1935-6 of a large provincial city which may be said to be typical of the country as a whole.

SERVICES ADMINISTERED BY "A" CITY COUNCIL

	s.	d.	s.	d.
Education: elementary	2	10	12	
Education: higher			7	47
Public assistance	4	5	84	
Police	1	1	54	
Housing (including 1d. for 1919 As- sisted Scheme)			3	94

The Expenses Borne by Rates

	s.	d.	s.	d.
Public health—				
Sewers and sewage disposal . . .		6·63		
Collection and disposal of refuse. .		9·13		
Hospitals, institutions, sanatoria, maternity and child welfare, etc. .	3	1·80		
Baths and washhouses . . .		3·01		
Parks and gardens		4·64		
Other health services	1	3·37		
		<hr/>	6	4·58
Highways and bridges			1	5·74
Fire brigade				2·90
Mental hospitals, etc.				3·66
Lighting				5·23
Other services and expenses			1	1·31
Cost of differential rating in added areas				0·24
			<hr/>	<hr/>
			19	4·57

Less—

Trading undertakings	3·65		
Corporate estates and other credits (augmented by Exchequer Grant of £52,573 received and applied to- wards cost of public assistance in 1934-5, equivalent to a rate of 2·2d. in £)	3·23		
	<hr/>		6·88
		<hr/>	<hr/>
		18	9·69
Water Rate levied under local Acts .			6·00

SERVICES RENDERED BY PRECEPTING AUTHORITIES, VIZ.:—

Assessment Committee Joint Com- mittee			3·39
		<hr/>	<hr/>
		19	7·08
			59

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<i>Deduct</i> the equivalent in terms of a rate in the £ of the General Exchequer Grant under the Local Government Act, 1929	s. d. 3 5·08
Rate in the £ payable by ratepayer	<hr/> 16 2 <hr/>

While comparative tables of figures do not of themselves present, and are not intended to present, a full and adequate feature of progress in a number of services vitally affecting the life and well-being of the people, nor does increased expenditure necessarily connote an exact and corresponding increase in efficiency, the figures bear eloquent testimony to the growth in the administrative machinery and to the extent to which assistance from the Exchequer has been provided in aid of local needs.

The population of the country since 1884 has increased by 50 per cent only, whereas the total expenditure of local authorities increased ten times—from £54,499,067 (including £10,445,163 from loans) in 1884-5 to £543,583,483 (including £110,879,734 on Capital Account) in 1930-1. During this period the assessable (or rateable) value upon which rates were levied increased by 77 per cent. In 1884-5, £25,666,552 was received from public rates and £3,621,508 from Government grants. In 1930-1 the corresponding amounts had risen to £149,895,968 from rates and to £137,291,951

The Expenses Borne by Rates

from Government grants. These increases are, however, due in part to the creation of new local authorities which were not in existence in 1884-5, as, for example, the establishment of the Metropolitan Water Board, which brought into the Local Taxation Returns, as expenditure of local authorities, expenditure formerly borne by certain Water Companies. Similarly, the expenditure of the Port of London Authority on the docks in London came into the returns for the first time in 1909-10, and, under the Education Act, 1902, expenditure on voluntary schools taken over by the Local Education Authorities also came into the returns.

But when all possible allowance is made for this factor, the growth in expenditure on local services has been a marked feature of national life. In the following tables the growth of the expenditure of different classes of local authorities is traced decade by decade.

EXPENDITURE OF LOCAL AUTHORITIES ON THE PRINCIPAL SERVICES ADMINISTERED BY THEM

During the last fifty years the form of the Local Taxation Returns has, not unnaturally, been modified from time to time to meet changing conditions in local government, and this circumstance makes it difficult to effect an exact comparison between the expenditure on individual services over a series

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(The expenditure is given in millions of pounds.)

Service	1884-5	1894-5	1904-5	1914-15	1924-5	1930-1
Education	£m 3.9	£m 7.8	£m 22.1	£m 32.8	£m 73.9	£m 86.6
Police	3.5	4.7	6.1	8.2	19.2	22.3
Highways	6.7	9.3	13.5	17.7	45.8	52.4
Public health	*	*	10.1	14.1	32.8	42.5
Poor relief	7.4	8.5	11.5	12.9	31.4	32.0
Lunacy	1.7	2.0	3.4	4.6	8.1	9.0
Housing (excluding small dwelling acquisition)	0.3	0.3	0.5	0.9	17.5	35.2
Principal trading services (viz. electricity, gas, harbours, tramways, and water)	8.6	11.6	22.4	42.3	88.6	106.7
Miscellaneous services	12.0	15.5	18.1	19.8	37.6	46.0
Total expenditure other than out of loans	44.1	59.7	107.7	153.3	354.9	432.7†
Expenditure out of loans	10.4	13.4	31.4	21.8	70.3	110.9†
Total expenditure	54.5	73.1	139.1	175.1	425.2	543.6

* Particulars not available—included under "Miscellaneous Services."

† All capital expenditure met out of loans or other capital receipts is included in the sum of £110,900,000 and excluded from the sum of £432,700,000.

The Expenses Borne by Rates

of years. In particular, the loan charges in respect of some services were not, in the earlier years, shown in the returns as expenditure on those services. For the purpose of the table on page 62, the unapportioned loan charges have been distributed among the services on the basis of the outstanding loan debt of each. As the expenditure on the services is given to the nearest £100,000, the amounts may be regarded as approximately correct.

CHAPTER 6

The Council's Control Over its Finances

ESSENTIAL SERVICES must be provided by the local authority, and all services imply expenditure. The extent to which secondary services can be undertaken or expanded depends upon financial considerations. The control of local finances is therefore of supreme importance in local administration.

Space does not permit of a complete survey of the measures—most numerous they are—which have been adopted to try and secure greater administrative control by the council over its finances. It is sufficient that within the limits of these pages consideration should be given to the various means which, under the pressure of growing rates, the various local authorities have been driven to devise for keeping the rates within reasonable limits.

Such methods have been brought about by reason of the pressure of public opinion, which has in the end been reflected in various statutory provisions.

A county council is required by statutory obligation to appoint a Finance Committee for regulating and controlling the finances of the county (Local Government Act, 1933, Section 86), but most local

The Council's Control Over Its Finances

authorities do the same without statutory authority or direction. This was recommended by the Departmental Committee on Local Expenditure. It is a significant fact that the principle of co-optation—appointing members otherwise than by election at the polls—does not extend to a Finance Committee. The county council's Finance Committee is appointed to regulate and control the finances of the county. No order for the payment of money out of the county fund must be made except in pursuance of a resolution of the council passed on the recommendation of the Finance Committee. No item of expenditure over £50 must be incurred except upon a resolution of the county council passed upon an estimate submitted by the Finance Committee. The notice of the meeting at which such a resolution will be proposed must state the amount of the item of expenditure and its purpose. These stipulations only apply to counties.

The control of a local council over financial matters falls into two natural divisions, viz.:—

- (a) Control of income; and
- (b) Control of expenditure.

(a) Control of Income

It has become quite a platitude to remark that public bodies conduct their financial arrangements in the reverse order to a private individual. Whereas the latter knows his income and spends accordingly,

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“cutting his coat according to his cloth,” the former estimate their expenditure and budget accordingly. There is no inviolate rule to this extent, however, as local authorities can, equally with private individuals, determine the probability of their income having regard to ascertained standards and budget accordingly. Whereas this form of budgetary control is growing, old systems die hardly and so it may be best to explain orthodox methods in the first instance.

Estimates.—In some cases half-yearly rates are levied in lieu of yearly rates. The following description of an annual budget system applies, *mutatis mutandis*, to a half-yearly system.

The first step in the financial control of local finances is the preparation of estimates of expenditure—the local budget is its colloquial title. Section 12 of the Rating and Valuation Act, 1925, places upon every local authority the duty to make provision for sufficient rates to cover the total estimated expenditure and in this manner makes the preparation of these estimates a statutory duty.

The financial year begins on April 1st. Early in January, schedules are prepared under each head of service showing each sub-head of expenditure in something like this form:—

- (1) Estimate for current year.
- (2) Actual expenditure to December.
- (3) Probable expenditure, January to March.
- (4) Approximate actual expenditure for current year.

The Council's Control Over Its Finances

Similar schedules are prepared in respect of income. It will be observed that these schedules are based upon reckonings of income and expenditure, the cash basis of receipts and payments being archaic and almost obsolete. From these schedules, duly completed, detailed estimates of rate requirements can be compiled. The chief financial officer is responsible for the form the estimates take and the accuracy of the figures supplied to the committee, although the figures will be supplied to a great extent by the head of the administrative or executive department. The chief financial officer will review the schedules of the various departments bearing in mind the natural tendency of those departments to provide "safety margins."

Drafts of the detailed estimates for each committee will usually be submitted in advance to the chairman of the committee, for he must take responsibility for the financial provision desired by his committee. When each committee has passed the schedules they can be collated into a composite estimate for the total rate requirements of the authority. These are usually reviewed by the Finance Committee prior to submission to the council, and the chairman of the Finance Committee usually takes the responsibility for them in the council chamber. The rate to be levied is dealt with by him, the budget estimates being usually accompanied by a report from the chairman on the total requirements and the amount

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of the rate in the £ necessary to be levied for the purpose, if the council approves of the allocation to each committee.

Standing Orders.—The procedure adopted will be regulated by the standing orders of the council. These standing orders should be so drawn up as to incorporate modern principles of financial control recognized to be the best for procuring the standard of efficiency and economy so necessary under modern conditions.

Supplementary Estimates.—Wherever it is found that the annual estimates are likely to be exceeded by incurring expenditure not budgeted for, a supplementary estimate should be submitted to the spending committee and confirmed by the council. It is important that provision should be made for these supplementary estimates to be sanctioned *before* the expenditure is incurred, otherwise the control of the council is rendered abortive. If a spendthrift department discovers that supplementary estimates can be approved as a matter of form *after* the expenditure has been incurred, the control of the council is lost.

Capital Estimates.—The system of furnishing to the council budget estimates should also be carried out to cover capital requirements. It is beneficial to arrange that the preparation of capital estimates precedes the completion of the revenue estimates, in order that the correct figures for loan charges for the year can be included in the latter. This order

The Council's Control Over Its Finances

enables adequate consideration to be given to the capital works to be carried out during the coming year. The weight of the loan charges involved in the programme of prospective capital expenditure acts in a way as a brake upon the capital commitments undertaken by any council without due consideration of financial results. The effect of borrowing is, of course, to increase the charges on the rates to the extent of the interest and sinking fund charges involved, for, as we shall see, no local debt is permanent. It has all to be repaid within periods prescribed by the appropriate Ministry or by Parliament in a local Act. The ease with which money can be borrowed just now, and the cost spread over a term of years, may induce committees to ask the council to borrow more than should be. The cumulative effect of constant borrowing eventually results in the authority paying more each year than they would have paid if they had met some of the costs out of revenue instead of by loans. In order to avoid heavier charges for interest than is desirable, some authorities have decided not to borrow for individual items beneath a fixed minimum (say £1,000) and to provide the produce of a fixed rate poundage (sometimes as much as 6d.) out of which to provide capital assets. The provision of a capital reserve fund by the allocation of yearly sums or annual surplus balances for the purpose of making provision for the acquisition of assets without recourse

The Ratepayer's Money

to borrowing is becoming the vogue with progressive authorities, empowered to do this by provisions in local Acts.

(b) Control of Expenditure

Standing Orders.—The first step in an effective system of financial control is the provision of a well-conceived code of standing orders. These will define the functions of the various committees, including the Finance Committee and the duties of the chief financial officer. They will provide for the advertising of all contracts and the reception and acceptance of tenders.

Whilst it is realized that the lowest tender is not always the most economical, conclusive reasons should be forthcoming to justify the acceptance of any other. The standing orders should provide for the manner in which goods are to be ordered, and for all accounts to be submitted to the chief financial officer for examination with contracts and orders.

Committee Control of Expenditure.—The practice of “calling over” accounts by committees prior to authorizing payment, under the notion that some control over expenditure is being maintained thereby, can advantageously be displaced by more effective methods of control. It is now realized that any attempt at control is too late at the stage when expenditure has already been incurred.

The Council's Control Over Its Finances

It should be a requirement that prior to ordering any goods to be supplied or work to be done, requisitions should be submitted to the appropriate committee by the ordering departments. It is at this stage that the committees may exercise the most effective control over their expenditure. The chief financial officer may draw the attention of the committee to any matter to which he considers it should be directed. The necessity for proceeding with the order may then be discussed. If it is not to be carried out under contract, questions may be raised as to whether adequate quotations have been invited and if the prices are satisfactory.

If this system is adopted there is no necessity to "call over" all invoices with the schedules of payments submitted to the committee. One or two items may be selected at random as a test check, and as an additional safeguard against any possible attempt at irregularity, but the security of the committee will be chiefly in some system of administrative control in operation such as is described in Chapter 8.

The total payments authorized at each meeting will be recorded in the minutes of the committee and the totals of all committee schedules in the minutes of the Finance Committee.

Periodical Tabulations.—At regular intervals, say monthly or quarterly, statements should be submitted to each committee, and composite schedules

The Ratepayer's Money

to the Finance Committee for all committees, showing the following (or equivalent) particulars:—

- (1) Sub-head of expenditure.
- (2) Amount of estimate for year.
- (3) Proportion of estimate to this date.
- (4) Amount of expenditure to this date.
 - (a) Actually paid.
 - (b) Outstanding liabilities.
 - (c) Total.
- (5) Balance of estimate unspent.
- (6) Excess of expenditure over estimates.

Special Financial Surveys.—Quite independently of the periodical tabulations mentioned above, it is now becoming more commonly the practice to institute a special financial investigation from time to time. Each branch of every service is thus brought under review. A tabulation would be drawn up for each branch showing the income and expenditure over a number of years for comparative purposes. The burden falling on the rates may be shown in amount and terms of rate poundage. The particulars for each branch of service could be incorporated in a similar tabulation for each service and these, in their turn, incorporated in a summary of all the activities of the authority. If unit costs for any service—the expense on a particular measure, e.g. per ton of refuse disposed of—can be shown, they are more useful for comparative purposes than most other figures. They also facilitate comparison with other towns. Any peculiar features thrown up by these dissections can then be investigated.

The Council's Control Over Its Finances

The Duties of Officials.—It is of course impossible for a council, or even its committees, to supervise themselves the various financial operations of the authority in any detail. This must of necessity be left to the responsible officials of the various departments and particularly the finance department. The responsibility for principles and policy remains with the council, however, and it is therefore their function constantly to watch trends and possibilities. They should call for reports upon matters which need investigation and upon which it would appear advantageous for information to be supplied to the council.

Wages and Salaries.—The council will need to be satisfied that the system in operation for the calculation, payment and accounting of wages and salaries is based on sound principles and is subject to an efficient internal check. Increases in rates of pay will be only granted upon the sanction of the responsible committee approved by the council.

Stocks and Stores.—An efficient system for the control of materials is of equal importance to the care and custody of cash, although the importance of this fact is frequently overlooked.

Local conditions will determine the system of control best suited for the authority. The records may be kept by the operating department or the finance department, as the local system may ordain, but if by the former, they should be subject to continuous audit and constant review by the latter.

CHAPTER 7

Rationing the Rates

Introduction

From what has been stated in the preceding chapters it will be appreciated that for the purpose of this book local authorities can be classified under two headings, viz. :—

(1) Those authorities who levy rates for the purpose of providing for their expenditure and for that of precepting authorities. These may be termed the rating authorities which we have seen in the previous chapter comprise in England and Wales county borough councils, non-county borough councils, metropolitan borough councils, and urban and rural district councils. Of these, the county borough councils do not have to provide funds for precepting authorities except in some instances for minor authorities such as assessment committees, joint boards and other bodies whose expenditure is comparatively small.

(2) Those authorities who obtain funds for meeting their expenditure by levying precepts upon rating authorities. These may be termed precepting authorities and comprise county councils, parish councils or parish meetings, assessment committees and various joint boards, etc. Of these, county councils are by far the most important, especially from the point of view of expenditure. The importance of this classification arises from the fact that a large proportion of local expenditure is incurred by precepting authorities who have no voice in the levying of the necessary rate. Conversely, a substantial share of the rates levied by rating authorities relates to the expenditure of precepting authorities over which the rating authorities have no control.

Rationing the Rates

It is the purpose of this chapter to consider in the light of these facts how far it is possible to achieve a system of rationing the rates and what are the advantages and disadvantages of such a policy and the various methods by which it has been sought to achieve such object. A very excellent study of these problems has recently been undertaken by Mr. E. J. D. Lloyd while serving as Borough Treasurer of Wednesbury, under the auspices of the Institute of Public Administration, to whom one's acknowledgment is due and given.

Statutory Powers

For the purpose of carrying out their statutory duties, all rating authorities must levy rates and all precepting authorities must issue precepts sufficient to provide for—

- (i) The estimated expenditure of the rate period, including, in the case of rating authorities, the requirements of precepting authorities; which may include provisions for
- (ii) Contingencies; and
- (iii) A working balance.

While reasonably accurate estimates are necessary to arrive at the expenditure requirements for the rate period, it is impracticable to estimate contingencies with any degree of accuracy, and this item, together with the working balance, is governed by the advices of the officials of the respective local authorities.

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Advantages and Disadvantages.—This aspect of the subject may be considered from three points of view, viz. that of the ratepayer, that of the local authority and its committees and that of the officers of the authority.

The Ratepayers

Different classes of ratepayers benefit in different ways from the rationing of rates. The ordinary householder appreciates a stable rate as a constant factor in household expenditure. Both the owners and occupiers of property let at an inclusive rent prefer a stabilized rate which avoids the necessity for the periodic adjustment of rents consequent upon variations in the rate poundage. A stable rate is an advantage to a manufacturing firm inasmuch as the knowledge that the rate will probably not vary greatly in the immediate future facilitates the preparation of cost estimates and tends to foster the development of a progressive policy. On the other hand, it has been alleged that rate stabilization is of little advantage to this class of ratepayer.

The position of other business ratepayers, that is, those engaged in distributive trades, including transport and wholesale and retail selling, and other commercial undertakings not classed as manufacturing and hence not receiving the benefit of de-rating as provided under the Local Government Act, 1929, is somewhat different. Rates in such cases

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form a larger proportion of the total overhead costs, and fluctuations in the rate charge are of greater importance. Some observers consider, however, that even in the case of the commercial ratepayer, the financial effect of rationing the rates and stabilizing the poundage would be comparatively insignificant.

It is even urged that from the ratepayer's point of view the stabilization of rates tends to induce the maintenance of a higher rate than is really necessary. On balance, the view of those who have tried it is that they would not now discard the system. Its influence is considered to be valuable.

The Local Authority

The effect of rate stabilization so far as it concerns the local authority is reflected in its bearing upon financial policy generally and in the administration of its several services. Primarily, the local authority is compelled to take rather a longer view and this it is claimed results in wise and steady administrative policy. Proposals for new services and extensions of existing services receive greater attention before they are approved, whilst expenditure generally is brought under closer control. Such results can, of course, be attained without stabilizing the rate, but the latter policy does provide an additional inducement to obtain close financial control.

On the other hand, it is urged that the policy in its operation deprives the local authority of com-

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plete freedom to spend. This may be regarded as an advantage or otherwise, but it is said that it is of little practical importance since the council is not bound by a decision to levy a certain rate for a number of years ahead. All the same, where it is in force all parties strive to avoid a breach of the undertaking.

A more serious criticism lies in the suggestion that the policy provides no encouragement to economy. It is argued that when stabilization is attempted by rationing committees the latter are induced to spend the whole of their allowance, whether this is necessary or not, in order to avoid the reduction of their ration in the following year. It might be difficult to detect such excessive expenditure, and this is used as an important argument against the system of rationing. On the other hand, this defect is also to be found in any system of rating, or wherever expenditure is rationed, whether amongst local authorities or in industrial or commercial undertakings. The latter use a system of budgetary control effectively, and ask why local councils should not do likewise.

It is suggested that the maintenance of the rate at a reasonable level results in the creation of annual revenue surpluses, which can be applied in assisting in reducing the burden of annual debt charges. Whilst this will be admitted to be a desirable result, it cannot be accepted as a general consequence of rate stabilization, which cannot be expected to

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produce an annual revenue surplus in all circumstances.

It is not easy to draw conclusions as to the effect of rate stabilization upon the local authority as an administrative body. In so far as it facilitates financial control and efficient administration, the policy is one to be encouraged, although it cannot be denied that the same results can be achieved by other more direct means. There can be no general rule about it. Local circumstances differ and so will local opinions vary about the system of control.

The Officers of the Local Authority

The preparation of estimates is facilitated by the rationing of rates since the amount available is known and expenditure is correspondingly adjusted before the estimates are presented to the committees. A stabilized rate would involve less frequent changes in inclusive rents and hence the finance department would have to deal with fewer inquiries from landlords and tenants as to correct rents. Further, the preparation of the rate books each year would be facilitated, as the rate charge on each property in the absence of alterations in rateable value would remain constant for a number of years.

The Extent of the Policy

Few local authorities have formally adopted the policy of stabilizing their rates for a period of years,

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a policy which involves the settlement in advance of the rate level and of the period during which it is intended that the rate level shall be maintained. In some other cases the authority has expressed its determination that a certain level shall not be exceeded, but no attempt has been made to fix in advance the period during which the limitation shall operate. In other cases a stabilized rate has resulted without any desire to achieve this end being formally expressed by the authority concerned. The policy of rate stabilization seems to have been adopted only by a few county borough councils. Birmingham was a pioneer, over twenty years ago.

It is significant that in certain instances the desire to secure economy and prevent any further increase in rates appears to have been the motive. It was thought that by this means commercial activity would be encouraged and unemployment correspondingly relieved. In a few cases the view was held that a non-fluctuating rate was in the best interests of all concerned. It would be probably true to say that the main reasons for which local authorities have adopted the stabilization policy have been the desire to limit the rate, and to avoid fluctuations, with a view to minimizing criticism by the electors.

The fact that the General Exchequer Grant under the Local Government Act, 1929, is fixed for certain periods, normally five years, would appear to suggest

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that, in general, the rate stabilization period, if and when adopted, should coincide with the fixed grant period under that Act.

Difficulties of the Policy

Amongst the difficulties experienced in operating such a policy is the increased expenditure necessitated by rapid development, for example, of an added area acquired by extension of boundaries. The corresponding growth in rateable value rarely occurs at the same rate, and during such a period of abnormal development it is difficult to maintain an even rate charge.

Another difficulty arises out of the rapid expansion of housing for the working classes where the expenditure on services whether onerous or beneficial is considerably in excess of the increase in the rateable value.

Other adverse factors outside the control of the local authority include bad weather conditions, which particularly affect the revenue of holiday resorts, and trade depression, which varies from town to town.

A serious obstacle experienced by all local authorities is the effect of legislation placing new duties on the local authority and involving increased expenditure which could not possibly have been foreseen. So far as the rating authorities are concerned, they have further trouble to meet in the fact that they have no control over the requirements of the precepting authorities whose demands represent

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in the majority of cases a substantial proportion of the total rate.

Rationing

At least two methods of rationing have been applied differing slightly in basis and effect. The earlier system depends upon the prior fixation of the total rate poundage to be levied, and thus involves the reduction of the spending committees' estimates to bring them within this predetermined figure. The latter is fixed as a matter of policy, having regard in some degree to expenditure requirements and income resources but primarily on political considerations. Another method of rationing adopted more recently, whilst involving a restriction of expenditure, seeks to determine the degree of limitation by reference to the preceding year's expenditure and the succeeding year's income. The two systems, whilst involving in both cases a scientific allocation of resources, differ in the method of application. The first system is designed to secure the limitation of expenditure, whilst the object of the latter system is to obtain a fair allocation between the spending committees of the resources available.

Miscellaneous Methods of Reducing Estimated Expenditure

There is diversity in the methods of securing the reduction of expenditure estimates utilized by various local authorities. Some are an integral part

Rationing the Rates

of a rate stabilization scheme, whilst others are merely utilized for the purpose of securing a minimum rate. In any case, either alone or in conjunction with other measures, they are of definite assistance in obtaining a stabilized rate. Such methods include a detailed review of the spending committee's draft estimates by the Finance Committee and the reference back either of the whole of the estimates with a view to a proportional or percentage reduction or such sections as are considered excessive, leaving each committee to decide how such reduction is to be attained.

Equalization Rate

A useful help to stabilization is the practice of providing a regular sum annually for the purpose of creating a fund out of which can be met expenditure which occurs at intervals greater than a year. Examples of such expenses are the provision of funds for the renewal of plant, purchase of land for street improvements or capital expenditure to be met out of revenue. There is no doubt that in the case of the smaller authorities particularly such items when they do occur have a disturbing influence, and unless counteracted by other means may involve a temporary increase in the rate. There is no general power to provide such reserve funds, although a few authorities have obtained such powers by means of local Acts. In most cases, however, the disturbing

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effect of such items can be obviated by a judicious arrangement of expenditure under these heads each year instead of allowing several items to fall within the same period. By this means it may be found possible to equalize the annual charge without creating a specific fund for the purpose. An extension of this principle has been suggested as a means of avoiding rate fluctuations.

Conclusion

Public opinion of this country is represented by the view of the ordinary ratepayer. It is reasonable to suppose that he much prefers a stabilized rate to one which shows a constant and ever increasing call upon his individual resources. Where present-day methods of local authority budgeting encourage extravagance, and where there exists an outlook which extols the importance of the department in proportion to the expenditure incurred therein, increases in rates are likely to extend rather than to diminish. An official might reasonably expect to be rewarded or commended for the economies he has effected as well as for the increased expenditure in which he has involved his authority. It can reasonably be suggested that a system of rationing of expenditure which has proved successful in many large industrial undertakings, railways and other enterprises, could be extended to our local authorities generally.

CHAPTER 8

Administrative Control of Expenditure out of Rates

THE SYSTEM of administrative control in operation in any area should aim at securing:—

- (a) The prevention or detection of fraud;
- (b) Economy; and
- (c) Efficiency in administration.

Although no system of control can entirely eliminate the possibility of misappropriation and fraud, it should narrow the avenues of possibilities of it, detect malpractices at the earliest moment and, what is very important, if misappropriation is discovered, the representatives of the ratepayers are able to show that all possible steps against these risks had actually been taken.

True economy is not always to be found in the cessation or contraction of expenditure. It has been truly said that it may be necessary to spend in order to save. An effective system of financial control will aid those who seek real economy.

Financial statements to assist in maintaining administrative efficiency must be produced early on, close up to the work in hand, or they may be of little use.

In a short chapter on this subject, it is only possible to treat it elementarily. The nature of the

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expenditure to be controlled may be considered broadly under three headings:—

- (a) Payment of invoices.
- (b) Payment of salaries and wages.
- (c) Stocks and stores records.

Checking Invoices

It has already been stated that the sanction of a spending committee must be obtained in advance of expenditure being incurred if effective committee control is to be maintained. A requisition, duly numbered and coded for reference purposes, should be presented to and passed by the appropriate committee as the first step in the system.

An official order, also coded and numbered, should then be issued upon the tradesman or contractor. These orders should be printed in triplicate or quadruplicate. The original copy can then be sent to the tradesman, one copy retained for office reference and another copy sent to the chief financial officer for control purposes. The fourth copy will be useful wherever a system of stores control is in operation in connection with the recording and checking of stores received.

The question as to whether the spending or finance department should be responsible for the examination and checking of invoices is one upon which there is a difference of opinion among local administrators, but the operations are similar in any case.

Administrative Control of Expenditure

There should be clearly marked on the face of every invoice the signature or initials of the person or persons responsible for having carried out the following operations:—

- (a) Compared with requisition approved by committee.
- (b) Compared with order issued.
- (c) Received the goods supplied or passed the work as satisfactorily carried out.
- (d) Agreed prices with contract, tender or quotation.
- (e) Checked arithmetical calculations.
- (f) Certified the account for payment.
- (g) Charged to appropriate account.

One expedient to guard against the possibility of duplicate accounts being passed, is to mark the copy of the order issued in such a manner that a second account could not be passed for the same order. A simple method frequently adopted is to tear off the corner of the order when it is covered by a payment made by the council. If detailed ledger accounts with tradesmen are not kept, an inspection of the unmarked orders at any time will provide information as to the outstanding creditors on orders issued.

A method whereby the invoices are scheduled and presented to committee has already been described (Chapter 6).

Mechanical aids in carrying out the various accountancy operations are now generally in use. The committee schedule, cash book, bank order and cheque can all be completed in one operation. At the same time, by the use of slips showing the account

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charged and the amount, a speedy allocation of the amounts to the various accounts can be made and an automatic check on the total payments provided.

Under an alternative system, cards are punched by machinery with holes which, coded, represent the particulars necessary to be recorded. The cards are automatically sorted and tabulated by mechanical process. This method has the added advantage that the cards may be sorted by the machines for other accountancy purposes if necessary, e.g. stock and stores records.

Salaries and Wages

Salaries are no longer paid in cash by many of the larger authorities, as it is more economical to pay by cheques or by credits paid direct to the official's banking account without the use of cheques.

Wages time records in the case of the larger authorities or departments may be verified by automatic time-recording machines. Small machines are now available to make automatic recording economical for even small departments. It is a wise precaution to require at least two persons to be involved in the compilation of wages sheets, thus making collusion necessary to any attempted fraud. A member of the departmental staff should be present at the time of payment to identify the persons paid by the pay clerk. The latter should be a member of the staff of the chief financial officer. Pay clerks should be varied

Administrative Control of Expenditure

from time to time. If the stamping and issuing of insurance cards is carried out by the finance department it supplies an additional security against the possibility of irregularities.

The card sorting and tabulating machinery already mentioned provides a method of tabulating and making the necessary analysis of wages for accounting purposes. Hand work is laborious and slow, important considerations when prompt checks may succeed and dilatory methods fail.

Stocks and Stores

In a general (and not a technical) work of this kind, only an outline of this subject is possible. A properly organized stores with an efficient lay-out is the first essential in the control of stocks and stores. The money assumed to be saved by tolerating cramped accommodation and inefficient premises is frequently lost in other directions. Provision should be made for sufficient space to house the various materials required with bins for each class of goods under some definite scheme of allocation. A system of bin cards, regularly written up, is regarded as a helpful auxiliary.

Requisition and Receipt of Stores

The requirements of storekeepers should be requisitioned on some approved basis under which a proper record of goods required is retained. The

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goods should be ordered by some other person than the storekeeper himself. A delivery note should accompany all stores received and be used as the medium for entering up a stores-received book which, in turn, is used as the basis for posting the stores ledger.

Issue of Stores

Issues should only be made from stores upon receipt of a requisition note signed by some authorized person stating the goods required and the purpose of use. A stores-issue note should accompany each issue and a copy, signed by the person receiving the stores, retained by the storekeeper as his receipt for the issue. The copies of the stores-issued notes will be used as the basis for writing up the stores-issued book, which is the medium for posting the stores ledger.

Internal Audit of Stores

All these records will be subject to inspection by the audit staff of the chief financial officer. It is preferable for the stores ledger to be kept by this officer as a link in the chain for preventing fraud. All invoices for purchases will be checked to the stores ledger. Stocktaking will be conducted continuously but preferably at irregular intervals. The objects of stocktaking are, of course, to substantiate the existence of goods, to verify that in their then condition they are all right in quality for the purpose

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for which they will be required and to facilitate fixing an estimate of the value of stores on hand. Attention will be given to the question of whether stocks are adequate for, or surplus to, requirements and also to the treatment of obsolete stores. Sales of discarded stores will be duly authorized by minute of the committees and checked by the chief financial officer.

Loose-Leaf System

All the foregoing records are suitable for the use of the loose-leaf or "slip" record system. Under this system, records of completed transactions may be removed to a transfer binder and current records disencumbered from dead matter.

Stores Accounts

The object of the Stores Account may thus be stated summarily as follows:—

- (1) To show that goods have actually been received in respect of payments made;
- (2) To facilitate an accurate account to be prepared in respect of the cost of various jobs;
- (3) To prevent fraud in relation to stores;
- (4) To place a valuation on stores on hand at any time without a physical survey.

Works Costing System

Personal contact with the details of every operation by an executive officer being impossible, an efficient

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system of costing is essential in order to make certain that a workshop or outdoor job is being conducted on an economical basis. In addition to ascertaining the actual cost of each job or process, many other advantages accrue from a proper costing system. Inefficiency in workmanship, management and processes may frequently—but not invariably—be detected and eliminated. Wastage or leakage of materials may be checked. A standard will be obtained for estimates of future operations and a basis provided for guidance on future policy.

The class of records necessary will be in the nature of operating or working costs and the expenses to be dealt with will consist of wages, materials, use of plant, works expenses and establishment charges.

A system of works orders should be in operation whereby a proper proportion of all expenses may be charged to each job executed. Code numbers for various processes may be established and so arranged as to make certain that constructional and repair work may be kept separate.

The arrangements for charging direct expenses for wages and materials present no special difficulty. Chargeable wages can be readily obtained from an analysis of time sheets and direct materials and general stores from the usual primary records. In the case of unchargeable wages and materials relative to no particular job, some equitable basis

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must be determined for purpose of allocation. Certain bases of allocation are stated below.

Cost of Operating Plant

Cost of operating plant presents a special problem. It is essential that expenses due solely to the operation of plant should be charged only to the jobs upon which it is used and that each job bears its proper share.

The expenditure consists of the following items:—

- (1) Rent, rates and taxes on machine space.
- (2) Insurance of plant.
- (3) Cost of power consumed.
- (4) Repairs and maintenance.
- (5) Depreciation.

One of the following methods may be adopted:—

- (1) A percentage based on the proportion which the total expenses bears to—
 - (a) Direct wages;
 - (b) Total wages;
 - (c) Wages and materials combined.

Method (c) is often found to be faulty because the cost of materials differs so considerably between jobs and processes.

- (2) A man-hour rate basis obtained by dividing the total expense by the total production labour hours.
- (3) A machine-hour rate basis—
 - (a) By dividing the sum of the capital and running cost of machines by the life of the machine in working hours.
 - (b) By dividing the annual cost of running including depreciation by the number of hours employed during the year.

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Depreciation of Plant

This is a necessary element in the cost of each job. The rate of charge will be based upon the estimated wear and tear of the plant including a charge for obsolescence. The basis of the charge should always be made clear in any statements of cost.

Interest and Sinking Fund Charges

There is considerable division of opinion about including interest in oncost charges.

In the accounts of private enterprise it is generally contended that interest, being an allocation of profits, should not be an item of charge in ascertaining cost of production. The reason for this is because the object of costing is price fixing. Where debenture interest is concerned this principle does not apply and the interest becomes a necessary element of cost. This is also true with respect to interest paid by municipal undertakings, and a proper proportion of the cost of interest charges should enter into the correct ascertainment of cost. Here, again, the statement should show the basis of the allocation.

As far as the costing results are intended to provide a test of works efficiency rather than total cost, there is good ground for excluding interest as the works management cannot be held responsible for interest rates. The same result can be obtained,

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however, by showing the analysis of total cost between works cost and other expenses.

Where proper provision is made for depreciation, sinking fund charges must not be included, as this would result in a double charge.

Administrative Expenses

Careful inquiry should be made to ascertain the basis upon which these expenses are allotted to the departments or jobs benefiting. Those who would wish to study this difficult subject could not do better than peruse the annual report of the Borough Treasurer of Chesterfield on the administrative expenses of the Corporation. His analytical methods have reached a standard rarely attained or considered by many to be attainable.

In conclusion, it need only be added that a council is entitled to rely on its officers for co-operation with the council and its committees, and with each other, in installing and maintaining administrative methods of control of expenditure out of sales and trading department revenues. The appointment of an official as chief finance officer with adequate technical qualifications is an essential ingredient in any sound system. A cheap and inexperienced accountant may cost local ratepayers a great deal of money. A first-class man can save a substantial salary many times over.

CHAPTER 9

Special Circumstances of Distressed Areas

The Nature of the Problem

It is gratifying that a stage in our national life has been reached when unemployment—the chief cause of the distress in these areas—has been recognized as a problem demanding action upon a national rather than a local basis. For too long have these unfortunate districts carried a burden which ceased long ago to be due to their own faults, which measures on local lines cannot adequately remedy. Much of the local efforts and expenditure of the past has been wasteful and in some cases extravagant. Moreover, the legislation of the past has, until quite recently, been of a palliative nature only, and has failed to attack the root causes making for industrial distress. The problem has grown far beyond any hope of remedy from voluntary or municipal resources and it is now recognized that nothing less than national action or effort can produce that improvement which the serious position of these areas demands.

The problem of the distressed areas is no new one. We are apt to consider it mistakenly as a post-war

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problem. The serious industrial and economic dislocations created by war conditions have certainly accentuated the problem, but the situation in these areas was difficult to deal with even in pre-war years. It is a significant fact that if we go back nearly fifty years we find West Ham one of the highest-rated county boroughs and Oxford one of the lowest rated. It has long been established that cyclical disturbances are world-wide in their effect upon trade and commerce and quite beyond local control. Changes in methods of production and the effects of specialization, rationalization and mechanization have contributed to the enlargement of the problem.

The Special Problem in the Distressed Areas

There is probably no other domestic problem which has been such a serious source of embarrassment to successive Governments since the War as the unhappy plight of the distressed areas.

Distress in these areas is not due to causes which are related to local government or with purely local events. Their high rates are due to a great extent to the changed conditions of modern commercial and industrial life. Social and economic changes of the past hundred years or so have entirely transformed the circumstances giving rise to unemployment and destitution. Formerly, each village was a distinct economic unit, comparatively self-sufficient

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for all its requirements and self-supporting. The development of road transport, air transport, telephone, telegraph and wireless, have all contributed to the inter-communication between towns and cities and made the whole country interdependent. The growth of overseas trade has made the entire nation an economic unit. Manufacturing towns depend upon the seaports and distributing centres for their imports of raw material and the exports of their manufactures and upon the mining districts for coal for heating and lighting purposes. The distributing centres depend upon the prosperity of the manufacturing towns. These areas are the backbone of our national prosperity in more fortunate times. The unemployed in the distressed areas constitute the pool of labour held in reserve for the manufacture and distribution of goods which will be necessary when more prosperous days return. The serious diminution in foreign trade since the armistice, due so largely to world-wide influence, has crippled some of our ports and caused repercussions in national economic conditions creating widespread unemployment and destitution, with particularly deep depressions in the districts which have come to be known as the distressed areas. It is claimed on behalf of these unfortunate communities that some areas which have become centres of attraction for large sections of the community made prosperous (in some instances) out of the fortunes created in the

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distressed areas during periods of prosperity, are now escaping the burden of the period of depression. These circumstances have given rise to those wide disparities in rate poundages between districts which the following figures show:—

YEAR ENDING MARCH 31, 1936

	s.	d.
Merthyr Tydfil County Borough Council	28	5
Glamorgan County Council	16	1 $\frac{3}{4}$
Bournemouth County Borough Council	7	4
Isle of Wight County Council	5	2

Attempts to deal with the situation in their own areas by their own efforts have mostly proved abortive, and have, in fact, added further burdens on the distressed areas. The cost of providing poor relief and the expense of relief works only increase rates to such an extent that existing industries find the burden too heavy to bear, and on closing down they pour additional unemployed persons into the stream of the destitute workless. Relief works are frequently useless economically. Additional local public expenditure becomes necessary for poor relief, meals for school children, welfare clinics, etc. Spending power is seriously contracted in the area and the depression extends to shopkeepers and others. The local authorities endeavour to retrench by economies in local expenditure to the detriment of local government in these areas. The cumulative effect of this vicious circle of depression is portrayed

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by the growth of the cost of poor relief in the distressed areas in the form of an inverted pyramid. Although the State agreed to contribute approximately 60 per cent of the cost of unemployment schemes, these grants are considered by some councils to be inadequate as long as they leave the burden of the remaining 40 per cent for the distressed area to bear.

The social legislation of the past has not succeeded in solving the problem. The plan of "weighting" population to allot the block grant under the Local Government Act, 1929, on account of unemployment has undoubtedly helped these areas, but the assistance is not regarded by many as sufficient, and doles, whether in the form of unemployment contributions to individuals or Exchequer Grants to local authorities, are looked upon as palliatives. The transfer of burden from local rates to national taxes in the form of unemployment benefits and transitional payments cannot be lightly dismissed from consideration, but these again have not lifted the distressed areas out of the slough of depression.

The practice of disallowing unemployment insurance benefit where applicants had not worked in an insurable occupation for a prolonged or unreasonable length of time and were not likely to return to insurable employment, however, has to some extent re-transferred part of the burden of unemployment to be borne by the ratepayers under unequal

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local conditions—a burden previously borne equally over the whole country out of national taxation.

The Distressed Areas Grant

In 1933 the highly-rated areas formulated a scheme under which the more fortunate areas were to contribute during 1933–4 the proceeds of a halfpenny rate supplemented by an addition of one-half those proceeds by the Exchequer for distribution on a needs basis to the distressed areas. This scheme was unacceptable to the local authorities in the more prosperous areas and it had to be abandoned. In June 1933 the Minister of Health announced the Government's decision to make a grant of £500,000 for assistance to the distressed areas in England, Wales and Scotland as part of their short-term policy for dealing with the problem. The following list shows the distribution of the share of this grant for England and Wales:—

SPECIAL GRANT TO DISTRESSED AREAS

ENGLAND AND WALES

<i>Counties—</i>	1932–3
	£
Cumberland	3,785
Durham	94,772
Norfolk	6,508
Anglesey	1,537
Carmarthen	5,679
Glamorgan	66,722
Monmouth	16,210
Pembroke	1,260

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<i>County Boroughs—</i>	<i>£</i>
Barnsley	3,861
Bootle	3,887
Gateshead	11,831
Grimsby	2,352
Hull	20,783
Lincoln	7,722
Liverpool	57,302
Newcastle	17,822
Norwich	9,674
Rotherham	2,492
St. Helens	4,375
Sheffield	58,533
Sunderland	10,094
Walsall	3,550
West Ham	19,289
Merthyr Tydfil	9,960
	<hr/>
	£440,000
	<hr/>

The expenditure of local authorities on out-relief was taken as the basis of distribution of the grant. Any local authority which had spent more than the product of a rate of 2s. in the £ on out-relief received a share in proportion to the excess over the amount produced by a rate of that amount. A maximum of the equivalent of a rate of 1s. in the £ was imposed and no grant was given where the grant itself worked out at less than a rate of 1d. in the £.

The Unemployment Assistance Act, 1934

On April 12, 1933, the Minister of Health announced in the House of Commons that the Govern-

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ment intended to promote legislation whereby the Exchequer would accept financial and administrative responsibility for the maintenance of the able-bodied unemployed within the industrial field. It was pointed out that this would necessitate some adjustment of the financial relations between the local authorities and the Exchequer, including the distribution of the block grant. Ultimately, as a concession to the local authorities, the Chancellor of the Exchequer agreed not to make any adjustment of the block grant until the reconsideration of the block grant factors in 1937.

Part II of the Unemployment Act, 1934, implemented the promise of the Minister of Health. It provided for the payment of unemployment allowances out of national funds to able-bodied unemployed persons under 65 years coming within the scope of the Contributory Pensions Acts, 1925 to 1932. The allowances are payable under a needs test and the poor law authority are prohibited from supplementing these allowances. The county and county borough councils were required, however, to make an annual contribution towards the cost of this new service of three-fifths of the expenditure they have been saved upon relief and administration. As a special concession to the distressed areas, they are entitled to deduct the amount of their share of the distressed area grant from their expenditure before the contribution is calculated. This financial

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arrangement is to continue until 1937, when it will be reviewed.

From January 7, 1935, the system of transitional payments ceased and all those receiving such payments were transferred to the newly appointed Unemployment Assistance Board. From a subsequent date the new scheme was to operate fully, and March 1, 1935, was fixed for this purpose. Owing to the opposition which arose in connection with the Rules for the Determination of Needs drawn up by the Board the system broke down, and a "stand-still" arrangement was made whereby the poor law authorities continued to provide relief for cases not already transferred to the Board. The regulations were ineffective because they failed to provide for the varied necessities and circumstances of individual cases but attempted to deal with all applicants on a uniform national basis. The Unemployment Assistance Board now by a temporary arrangement makes good the additional cost falling upon local authorities until the date for the full operation of the scheme is determined.

It is common knowledge that considerable financial relief is brought to the distressed areas under these provisions. The distressed areas, however, find the remaining burden still heavy. The policy of the Government is based upon the principle that it is not a good thing for local authorities to be entirely dissociated from the fortunes of the unemployed in

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their areas. Some councils contend, however, that this criticism or stipulation is met by the fact that there is a considerable burden on account of unemployment not coming within Part II of the Act. They point out various unsatisfactory features in the existing position from their side of the case. The disparities in local rates remain, and most distressed areas continue to be highly rated areas. The cost of relief to many able-bodied unemployed persons remains a burden upon local rates. Persons to whom the Contributory Pensions Acts do not apply include persons previously in business for themselves, such as shopkeepers, hawkers and agents, and persons whose income was over £250, such as many black-coated workers. It is difficult for them to find a satisfactory explanation for the differentiation between these classes of unemployed. Persons unemployed owing to a trade dispute have to seek relief in the form of public assistance. Unemployment due to occasional sickness is only covered by unemployment assistance to a relatively small extent. Unemployed persons who refuse or neglect to maintain their families may be suspended from the provisions of the Act and may become chargeable to the public assistance authority. The Board may also disclaim responsibility for certain other cases where the applicant refuses to comply with their regulations. Local authorities are called upon to bear proportionately the cost of these discarded cases up to

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a figure of 5 per cent of the amount of their aggregate contributions to the Board. Twenty-five per cent of the cost of providing Juvenile Instruction Centres also falls upon local rates. In the aggregate, the distressed areas find these burdens oppressive.

Reports on Industrial Conditions in Depressed Areas

In April 1934 the Minister of Labour announced in the House of Commons that Commissioners had been appointed to investigate conditions in Durham, South Wales, Cumberland and Scotland. The reports of the investigators were published in November 1934. Among their conclusions the following might be specially noted. A large proportion of surplus labour might be settled upon the land (Cumberland). Any large-scale movement of population involves an immense waste of social capital. Some form of national planning is required. Some measure of unification among the local government authorities on Tyneside should be considered. An Exchequer Grant to reduce the cost of public assistance in the county and county boroughs to the average for the whole country is recommended (Durham and Tyneside). Local rates are extremely high in some areas, and when the effect of the Unemployment Assistance Act, 1934, is known the position should be reviewed (South Wales and Monmouthshire).

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The Special Areas (Development and Improvement) Act, 1934

This Act provided for the appointment of two Commissioners (one for England and Wales and one for Scotland) with wide powers to initiate, organize, prosecute and assist measures for the economic development and social improvement of these areas—now termed “special areas.” The Commissioners co-operate with Government Departments, local authorities, voluntary authorities and other bodies, including the Unemployment Assistance Board. The Commissioners act under the general control of the Minister of Labour, who is responsible for matters of policy. They may provide financial assistance to any undertaking not carried on for profit which provides means of livelihood for unemployed persons receiving unemployment assistance or poor relief or to local authorities, by grant or loan, for works for which no other Government grant is payable. Small-holdings or allotments may be assisted notwithstanding grant aid may be otherwise provided. Although the functions of the Commissioners extend, in general, only to the scheduled areas, their operations may extend to other areas if employment may be afforded to substantial numbers of persons in those areas. An initial sum of £2 million was set aside for purposes of the Act. The Act continues in force until March 31, 1937.

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The Commissioner for England and Wales outlined his policy in January 1935. The revival of industry and the establishment of new industries will be encouraged. Land will be drained, derelict buildings removed and other obstacles to the establishment of industry will be removed. Transfer of surplus labour will be encouraged. Sewerage schemes and other public health services will be assisted. Labour for works of public utility will be recruited from married men over 35 years of age through the agency of the Employment Exchanges. Boots and working clothing may be provided on initial employment. Unemployment benefit or allowances will be paid to men working under Voluntary Labour Schemes to provide amenity services. Assistance will be given in providing allotments, poultry holdings and small-holdings. Grants-in-aid will be provided to voluntary societies such as the National Council for Social Service.

First Report of the Commissioner

In July 1935 the Commissioner published a report after six months' operations under the Act, giving an account of the measures taken and difficulties encountered under headings of industry, public works, agriculture, social improvement, transference of labour and finance. Attempts to establish works had been disappointing. The public works assisted are outlined. Transfer of labour to other districts

The Distressed Areas

and trades is necessary—the policy is considered workable and every inducement should be held out to persons willing to transfer. The state of the special areas is due to economic and international factors beyond control. State ownership of mining royalties is favoured. Economic considerations must in the main determine the location of industry. It is futile to attempt to establish industries when the economic facts do not warrant it.

During his term of office a general request was made that something should be done to attract fresh industries to the Special Areas, and it is interesting to read of the results of the efforts made in this direction. A circular letter was sent to some 5,800 firms in England and Wales connected with the Federation of British Industries, the letter being addressed to all such firms outside the Special Areas except those dealing in coal, cotton, shipbuilding and iron and steel: and these firms were asked to complete a questionnaire as to the possibility of their establishing a new branch in one of the Special Areas. Three main questions were asked, viz:—

- (1) Whether the firms had established any works or branches in a Special Area during the past five years;
- (2) Whether they had considered the choice of a site in a Special Area within the past five years;
- (3) Whether they were now prepared to make such a choice.

Up to June 29, 1935, 1,711 replies were received, of which 1,651 answered all three questions in the

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negative. The main reasons preventing the establishment of new factories in the Special Areas appear to be as follows:—

- (1) Inaccessibility of markets;
- (2) *High rates*;
- (3) Fear of industrial unrest;
- (4) Psychological, i.e. the areas are depressed;
- (5) Difficulty in obtaining finance to start new industries.

In the opinion of the Commissioner there is locally too little of the spirit of self-help and too great an inclination to take the view that the future must be left to the Government. The Government should not construct factories in the Areas but, whenever possible, with due regard to price and quality, Government contracts should be placed with firms in those areas. A tapering subsidy for three years should be offered in suitable industries to meet a portion of the cost of reducing hours of labour without reducing wages or the standard of living of the workers, the balance to be borne by the industry.

The Commissioner gave the following summary of his commitments up to the date of his report:—

	£
Works of public utility	950,000
Local amenity schemes	6,500
Land settlement schemes	800,000
Allotment, pig and poultry schemes	19,500
Public utility housing	100,000
Social service work	65,000
Scholars' holiday camps	70,000

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	£
District nursing assistance	19,500
Subsistence production schemes	16,000
Miscellaneous	10,500
	<hr/>
	£2,057,000
	<hr/>

Second Report of the Commissioner

The Commissioner issued his Second Report in February 1936. The First Report had dealt mainly with policy and principles. With the additional time for carrying out the various schemes which had now been made available, in this report he was able to deal in greater detail with the operation of those schemes. The commitments had now reached the significant sum of three and a half million pounds. Whilst he issues a warning not to expect spectacular results from his operations, he expresses the optimistic view that a steady improvement in the Special Areas may be anticipated. No attempt has been made merely to create artificial employment as it produces no adequate or sufficiently lasting benefits. Health services, particularly urgently needed sewerage and hospital provision, had been selected for special consideration. The provision of maternity and child welfare centres were being favoured and open-air baths deserved every encouragement. The system of training men at unemployment centres and then letting them go back to a life of idleness is criticized and the Commissioner asks whether em-

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ployment upon work of national importance could not be found for these trainees. Following the statement contained in the report of the Commissioner with reference to the possibilities of improvements which might accrue from some modification of the arrangements for the local government of two distressed areas, it was announced in the House of Commons on April 17, 1935, that two small Royal Commissions had been set up to consider the subject of local government on the Tyneside and in the county borough of Merthyr Tydfil. With regard to the Tyneside the terms of reference covered the consideration of changes with a view to securing greater economy and efficiency and had relation to the benefits of unification of existing local authorities. In the case of Merthyr Tydfil the terms of inquiry raised the question of the continuation of its status as a county borough. The Royal Commission on the status of Merthyr Tydfil reported in December 1935, in which they recommended in many material respects revision to the status of a non-county borough, with the attendant loss of many of the functions of a county borough then exercised by the Corporation. Instead of this, a special advisor has been procured by the Minister of Health.

Some see in progress various measures calculated to improve gradually the lot of these troubled districts. There is no royal road here to success, and the solution may come by stages, after trial and

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error, rather than by drastic or even heroic measures. The ratepayers' money in these districts is scarce, and what there is of it is obtained by heavy levies of high poundage rates on those able to pay at all. The most effective means of financial control and severe economies in the cost of local administration can only play a small part in such circumstances.

CHAPTER 10

The Basis of Exchequer Grants in Aid of Rates

Sharing the Burden of Local Expenditure

It has been shown that the central government now accepts responsibility for over 37 per cent of the expenditure of local authorities. If the expenditure out of public funds alone is considered, the proportions borne by local rates and national taxes are as stated below:—

	Year 1933-4	
	£	Per cent
Local rates	149,450,574	= 55
Government grants	120,947,635	= 45
	<hr/>	<hr/>
	£270,398,209	= 100
	<hr/>	<hr/>

If the sum of approximately four-and-a-quarter million pounds paid to local authorities in respect of capital expenditure and trading undertakings is added, the amount of the grant reaches the considerable figure of approximately £125½ million.

The question arises as to why the State should help to bear the burden of local expenditure. The uninitiated might ask why it is, if the money is provided out of public funds, that two purses are

The Basis of Exchequer Grants

used for the purpose. The answer, of course, is that the incidence of rates and taxes differs and a different and wider group contributes to taxation than to local rates.

Reasons for the Exchequer's Contribution

Many reasons can be given for the principle of State aid for local expenditure. Rates are levied on the basis of the annual value of premises occupied. The system originated four hundred years ago, when conditions of life and labour were fundamentally different than they are to-day. Each parish was then a comparatively self-contained and self-supporting unit. All the "inhabitants" were liable for rates on all their property visible in the parish, both real and personal. It was a simple system for a comparatively simple age. In course of time personal property was exempt from rates. Then other forms of property received partial and later on, in some cases, total exemption from payment. The basis of the occupation of real property has been found to be an inequitable basis in many directions, and powers to obtain new sources of revenue in aid of local rates are being demanded. Moreover, the legislature has imposed upon local authorities the administrative responsibility for many services which are entirely or predominantly national in their scope, and the burden of them, it is contended in many quarters, should therefore be borne equally by all areas and

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not according to the unequal conditions applying from place to place.

Many services, when originally accepted as a local responsibility by local authorities and carried out by them, if at all, according to their own standards of efficiency, have been transformed in the course of time by changed social and industrial conditions into obligatory services enforced by the central government according to national standards. Large sums of money have still to be raised by some local authorities to maintain unemployed persons outside the scope of the Unemployment Assistance Act, 1934, and their dependants, whilst the causes of unemployment, far from being local, are national and even world-wide in origin, and are such that, as recent experience in the "special areas" has indubitably exemplified, no satisfactory measure of local administration can possibly prevent or abate them.

National taxes are levied to a far greater degree upon the basis of "ability to pay" than rates. Rates are levied upon the occupation of property whether the occupation is profitable or otherwise. Income tax is only chargeable upon the earnings of income or the realization of profits. The annual value of property occupied can, in many instances, be proved to be in inverse ratio to the gains or the "ability to pay" of the occupier. Moreover, the rating system has proved to be so inelastic as to be unable to bear

The Basis of Exchequer Grants

the added strain of increased local services, particularly during periods of industrial distress. Taxable capacity is much more elastic than rateable capacity. One penny increase on the standard rate of income tax produces nearly five million pounds. One penny added to the local rates of all local authorities produces something just over one million pounds. An extra penny on the rates would hardly be felt in the Isle of Wight, where rates are 5s. 2d. in the £, but would be a heavy burden in Merthyr Tydfil, where rates are already 28s. 5d. in the £.

The chief reasons for the payment of Exchequer Grants may therefore be stated to be:—

(1) To make a contribution out of national funds on account of the cost of national services administered by local authorities.

(2) To transfer the burden of public services to be borne to a greater extent according to the principle of "ability to pay" and where there is wider "capacity to pay."

(3) To mitigate to some extent the wide extremes in the burdens of local authorities, particularly for purposes exceptional in their incidence. (The method of bearing the expense of building houses under the provisions of the Housing Act, 1919, may be quoted in this connection.)

(4) To use the grant system so as to maintain, although perhaps somewhat crudely, a minimum standard of efficiency in all areas, encouraging inactive authorities to carry out their functions in one direction and discouraging extravagant forms of administration in the other.

Dangers Arising Out of National Subventions

On the other hand, there are changes inherent in the system under which local authorities are assured

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of receiving a large proportion of their expenditure from taxation for which they are not administratively responsible. Expenditure may be much more lightly incurred by local bodies when it is known that one-half or more is forthcoming from national funds. It is difficult to draw a line of demarcation between services which are national or semi-national and those which are purely local. The control which the central departments may try to exercise over local expenditure can never be very effective. It comes late, and frequently the penalties can be avoided.

Bases of Paying Grants

The principle of paying Exchequer Grants in aid is now so universally recognized, however, that it can hardly be opposed in practice. The problem which has not yet been solved is to find a satisfactory and equitable basis upon which grants should be distributed to the local authorities.

Percentage Grants

The first basis adopted was to repay a proportion of the approved expenditure of local authorities. In 1833 the Government undertook to pay one-quarter of the cost of the pay and clothing of the Metropolitan police. One-half the net approved expenditure of all police forces is now paid under the Home Office Grant. Grants based upon a percentage basis have in times past been paid for

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services in respect of criminal prosecutions, poor law officers and medical services, sanitary officers' salaries, highways, education, probation officers, mental deficiency, small-holdings, allotments, tuberculosis, maternity and child welfare, port sanitation, registration of electors, unemployment relief schemes, land drainage, disease of animals and reformatory and industrial (now "approved") schools. Percentage grants are now paid towards the cost of certain roads, and of education and police, these being the main services so aided, outside the "block grant," mentioned later.

Assigned Revenues

Prior to the passing of the Local Government Act, 1888, all grants were related to the expenditure of the local authorities. Under the provisions of that Act, however, with the exception of education grants, the Government adopted a new plan. The income derived from a proportion of the probate duties and certain licence duties (such as those for liquor and dogs) were paid into a Local Taxation Account for distribution to the county and county borough councils, who were required, in the first instance, to pay the grants previously paid direct by the Government and retain the residue, if any, for their own requirements. Under the provisions of the Local Taxation (Customs and Excise) Act, 1890, the proceeds of an increase in the duties on beer and

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spirits was also assigned to local authorities. This became known as the "whisky money" and was subsequently allocated in aid of expenditure on technical education. The assigned revenue system failed to give satisfaction. It was expected that the increasing yield of the assigned revenues would meet the growing needs of local authorities, but the latter grew at a more rapid pace than the former. Moreover, as the Government sought to secure revenue by increasing the rate of duty charged upon some of the licences affected by the scheme, a system of stereotyping the proceeds to the yield in certain years was adopted. This happened with the liquor licences, motor and carriage licences and the whisky money. The Royal Commission on Local Taxation (1896) drew attention in their report to the unsatisfactory nature of the assigned revenue basis and the Departmental Committee on Local Taxation (1911) recommended its abolition. Under the provisions of the Local Government Act, 1929, the assigned revenues system was abolished with the exception of the locally levied licences. The local taxation licences assigned to the local authorities in 1888 continued to be levied by the Inland Revenue Department. Under the provisions of the Finance Act, 1908, however, the responsibility for the levy of certain of these licences was transferred to the county and county borough councils. These were the licences for dealing in game, keeping dogs,

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killing game, keeping guns, keeping carriages, keeping male servants and for armorial bearings. The carriage licences became merged into the Road Fund. As the others ceased to pass through the Local Taxation Account, they were not discontinued by the Local Government Act, 1929, and are still levied and the proceeds retained by the local authorities.

Road Fund grants are made out of assigned revenues, although ultimately paid upon the basis of a percentage of the local authority's expenditure. The Road Fund is fed out of the proceeds of licence duties on carriages, mechanically propelled vehicles, and drivers. Now, by the Finance Act, 1936, the Road Fund no longer retains its special functions, though the change is said to be nominal rather than real.

Unit Grants

There is much that may be said in favour of making grants based upon some unit of expenditure. It meets to some extent the adverse criticism levelled against the danger of local extravagance encouraged by the percentage basis. The difficulty is to find satisfactory units of expenditure upon which to base these grants. In order to encourage the removal of pauper lunatics from the general workhouse and the provision of specialized institutions, a grant of 4s. per head per week was made in 1888 in such cases. A Home Office Grant of normally 16s. per inmate per

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week is paid towards expenditure in certified inebriates' reformatories. Grants to encourage schemes of afforestation are made by the Forestry Commission based upon a sum per acre planted. Grants under the Housing Acts, 1923, 1924 and 1935 are paid at a certain rate per house provided, and under the Housing Act, 1930, per person displaced from insanitary property and in respect of whom new accommodation is provided.

Block Grants

On various occasions the Government have allocated a fixed sum to be disbursed upon some approved basis among local authorities. The virtue of the block grant, from the point of view of the central government, lies in the advantage accruing from the fixation of the cost falling upon national funds, enabling the Government to more accurately estimate their budget requirements. The effect of the process of stereotyping the proceeds of local taxation licences was a form of block grant payment, although the increase or decrease in the number of licences taken out affected the receipts of the local authorities whilst the yield due to the increase of the rate of duty went to national funds. The carriage licences grant of £536,954 was an example of a block grant. Although, nominally, education grants were payable upon a percentage basis, the Board of Education limited the annual amount payable for

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certain services, such as the provision of meals, thus making them virtually block grants. At one time a block grant of £100,000 was allocated for subventions in aid of school buildings. The distressed areas grant referred to in the last chapter was a block grant of £500,000 per annum.

The term "block grant" is used in reference to the general Exchequer contribution payable under the Local Government Act, 1929. The amount of the contribution is only fixed, however, during the fixed periods laid down in the Act—in future quinquennially—the amount during those periods being fixed according to the grant and rate-borne expenditure of all local authorities. The amount of the contribution can therefore be stated in the form of an equation and is, in reality, a grant determined as to the total sum by reference to expenditure.

Formula Grants

The idea of a formula is to broaden the basis upon which a grant is payable by introducing more than one factor to determine the amount of the grant. The Fisher formula for the payment of the elementary education grant was introduced by the Education Act, 1918. The main grant is now paid upon a formula which contains factors distributing the grant according to attendance of scholars, percentages of expenditure differing according to the nature of the expenditure, and the surplus expenditure over a

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standard rate poundage. These factors divert the money into channels according to the Government's conception of the needs of the local authorities and the advisability of the expenditure.

Under the regulations of the Board of Education for 1932 a new additional formula grant was introduced, to assist authorities where the rateable value is low and the proportion of scholars high in relation to the population. Where the product of a rate of 7d. in the £ falls short of the amount produced by multiplying each unit of average attendance by 3d. and multiplying the product by the number by which the average attendance per thousand of the population exceeds 100, a grant of one-half the deficiency is payable.

The formula under which the general Exchequer contribution is payable is also remarkable. Five factors are introduced to measure the needs of the local authorities, viz. population, children under 5 years, rateable value per head unemployment and (for counties only) sparsity of population per mile of roads. The method adopted is to increase or "weight" the population to give effect to these factors, and thus divide the money on the basis of the "weighted" population. To have introduced this formula immediately would have caused great changes in the amounts received by certain areas, and therefore it is being introduced gradually so that its full effect will not be felt until the year 1947.

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Although strictly this general grant from State sources is a formula grant, it is generally referred to as a "block grant," in distinction from local services on which grants are made on a basis into which local expenditure enters. It will be observed that amongst the weighting factors of this new block grant no place whatever is found for local expenditure or local rates in the pound.

The weighting system is now undergoing a scrutiny by the Ministry of Health and the various associations of local authorities with a view to revision if need be in 1937.

CHAPTER II

Rates on Land Values

IN URBAN areas, and particularly in industrial and commercial centres, the value of land may increase rapidly, quite independently of its productive capacity. This "unearned increment" is regarded as due mainly if not entirely to the action of the local community in providing public services such as roads, sewers, transport facilities, and amenity services such as parks, baths, libraries and public health services, though extensive developments in railway, telephone, telegraph and commercial enterprise have also contributed to the same result. For these reasons it is claimed that the taxation of site values is an appropriate method of raising revenue for public purposes and particularly for local public services.

It is claimed that this prospective and progressive increase in site values causes owners to hold up their land in urban centres and environs with a view to securing the highest possible price for that land. Development companies buy up estates and may have opportunities to sell out parts for public requirements at enhanced prices. Local authorities have been protected, to some extent, by Acts of

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Parliament passed during the last century, from having to pay unreasonable prices for land required for certain public purposes. In some cases this is secured under power conferred by Provisional Order of a central department confirmed by Parliament (e.g. Public Health Acts), in other cases by an order confirmed by the appropriate Minister (e.g. Housing). Where local authorities are authorized to acquire land by compulsory purchase the Acquisition of Land (Assessment of Compensation) Act, 1919, applies, under which a fair price is fixed by an official arbitrator.

When an owner develops his land or a lessee improves his premises, the increased annual value produced thereby causes an increase in the rates levied upon him. Improvement may be prevented or retarded by the prospect of an increase in rateable value and industry and enterprise handicapped by these conditions. It is urged that land which is undeveloped or under-developed fails to make a fair contribution to public expenditure and that while it is escaping this liability the expenditure out of public funds is helping still further to increase its value.

The case for the rating of site values rests largely on a ground highly contentious in its nature, that is to say, the incidence of rates payable on real property.

The rent may be divided into two parts:—

- (1) Rent of the site; and
- (2) Rent of the structure.

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The division of the total rent between the two parts depends on various factors. The proportion appertaining to the site will vary according to the demand for land in the neighbourhood for building purposes and the availability of land for that purpose. In theory, at least, the rates on the rent of the site are borne by the landlord and cannot be shifted on to the tenant.

The proportion appertaining to the structure will be governed by the annual value of the expenses connected with the structure, which include:—

- (1) Cost of construction.
- (2) Interest on borrowed money.
- (3) Builder's profit.
- (4) Repairs and improvements.
- (5) Management.

Under normal circumstances, the burden of the rates based upon the annual value of the structure is said to fall upon the tenant because, if he could shift it on to the landlord or builder, there would be less inducement to build. The actual incidence of the rates would, of course, be determined by the law of supply and demand operating in relation to housing accommodation. If alternative accommodation is available the tenant may be able to shift part of the burden on to the landlord. A lessor has to bear the burden of any increase of rates during the currency of the lease.

In the case of shops and trade premises the pro-

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prietors and manufacturers (it is argued) pass on the burden to consumers in the prices paid for commodities. Prices are, however, fixed as a rule by the inexorable law of supply and demand operating through competition. If shopkeepers or manufacturers are unable to pass on the burden, profits diminish, the marginal operator will pass out and the demand for business premises will fall away.

Parliamentary Inquiry, 1870

In 1870 a Select Parliamentary Committee unanimously agreed that owners should be made liable for a certain proportion of rates on their properties.

Royal Commission on the Housing of the Working Classes, 1885

The Royal Commission on Housing (1885) recommended that a local tax on land values would remove one of the chief obstacles to housing development by forcing land into the building market at lower prices. It was proposed that land in the neighbourhood of populous centres should be rated on selling values.

Select Committee on Town Holdings, 1892

The Select Committee on Town Holdings (1892) considered this subject. Their finding may be summarized as follows:—

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(1) Ground rents are already taxed in the rateable value of the property on which they are secured.

(2) The real incidence of local taxation falls in varying proportions upon the landowner, the houseowner and the occupier.

(3) The benefits accruing to ground landlords from local expenditure vary considerably and are seldom appreciable.

(4) The unforeseen increases in the value of leasehold property more than compensate for the burden of increased unanticipated local taxation.

Royal Commission on Local Taxation, 1896

Majority Report.—The Royal Commission of 1896 devoted a chapter of their Final Report to the “Rating of Land Values.” They stated that it was generally admitted that the mere taxation of ground rents would be inequitable. They agreed with the Select Committee of 1892 and considered that their conclusions remained valid. They were impressed by the practical difficulties pointed out by expert witnesses, including the increase in litigation which would ensue.

It was thought by them that the separate valuation of site and structure would be complicated, expensive and uncertain. Even when separate valuation was accomplished it would leave the difficult problem of the apportionment of the burden between the respective parties. In what manner would restrictive covenants, easements and rights of adjoining owners be taken into consideration?

The proposal to levy a special additional tax on

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site value was considered to be neither equitable nor justifiable either on ground of ability or benefit. It was claimed that a general rate on all site values would be in no way proportioned to their increments of value, and would fall also on sites which have decreased in value. A further difficulty was presented by existing agreements. Breach of contract was considered indefensible, whilst a new burden on occupiers and lessees would be most burdensome and unfair. They concluded that a new tax on land was impracticable and inequitable.

They condemned the principle of rating site values in the following words :—

We cannot concur in the suggestion that it would be equitable to select land as a particular class of property and place on it a burden in addition to that which it bears in common with all other rateable properties.

Minority Report.—A Minority Report signed by five commissioners, including the chairman (Lord Balfour of Burleigh), dealt with the subject in considerable detail in a separate report on urban rating and site values.

After surveying the incidence of local rates upon urban tenures, they pointed out that some part of the rates already fell on owners of ground values. Although they considered that no exact solution of the ultimate incidence of rates between seller and purchaser, lessor and lessee, was possible, they stated what they considered to be the approximate results.

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In entering new agreements, tenants take the existing rate burden into consideration. This did not necessarily result in them avoiding the whole of the rate burden, which was determined by economic conditions. Increases of rates during the currency of a tenancy fall upon the lessee. Otherwise the owner bears the real burden of rates proportionate to the value of the site and also, probably, the burden of any exceptionally high rates, whilst the lessee bears the burden of rates proportionate to structural value plus any increases during the currency of the existing lease. Attention was directed to the fact that rent is closely analogous to purchase money, and from this point of view the lessee may be regarded as the real owner of the site value. In any case any violation of existing contracts was considered indefensible.

The Minority concluded that any attempt to tax specially all unearned increment would be impracticable. The essence of the rating of site values was not to levy an impost upon owners but to redistribute locally the burden of rates. Nevertheless, there were good reasons to support the imposition of a moderate rate proportioned to site value. The expenditure of public authorities on improvements maintained and increased site values. A structure is a wasting, perishable property which requires repair and renewal, whilst a site is permanent and, as a rule, increases rather than diminishes in value. Consequently, the site represented greater ability to

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pay. Moreover, the urgent necessity to increase housing accommodation demanded that some relief should be given from the burden of rates. Such a rate would cheapen building on the outskirts of towns whilst, at the same time, the quality of building would most likely be improved and a contribution made towards the abatement of overcrowding. A site value rate would promote and not hinder development. Furthermore, owners of sites would ultimately benefit by any relief from the pressure of rates. They advocated, therefore, a special site value rate in urban districts, collected in the first instance from the person liable for rates, but upon the expiry of existing contracts a moiety should be recoverable from the owner by deduction from the rent. The necessary valuation they considered to be quite practicable and it would not prove too expensive for the purpose in view.

The recommendation of the Minority to rate site values carried with it the rider that the revenue produced should be utilized in meeting expenditure likely to increase the value of land.

In their summary of conclusions the Minority made the following points:—

- (1) Others beside freeholders are interested in site values.
- (2) Sites as well as buildings are already rated.
- (3) Rate expenditure does increase urban site values but they have no monopoly of such enhancement.
- (4) Site and structure differ so essentially that they should be separately valued.

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(5) Site values are capable of bearing a heavier relative burden and should bear it, subject to existing contracts.

(6) A site value rate should be borne by the owner by deduction from rent.

(7) Unoccupied property and undeveloped land should be chargeable with site value rates.

(8) The rate should be limited to populous urban areas of certain density and its enforcement should be optional to local authorities.

The advantages the Minority commissioners claimed for the proposal to rate urban site values may be summarized as below:—

(1) Urban rating would be placed upon a more equitable and sounder basis.

(2) Persons with interests in site values would contribute more and their contributions would be direct and visible.

(3) Agitation for unjust and confiscatory measures would be stopped.

(4) Some contribution would be made towards the solution of the difficult and urgent housing problem.

(5) Inequalities between one district and another and between one ground-owner and another would be rectified to some extent.

(6) Any doubt as to the existence of any large undeveloped source of public revenue would be removed.

A separate report submitted by Commissioner Judge O'Connor contained the following conclusions:—

(1) Local public services—as distinguished from general public services and services rendered to the individual on his own premises—are alone the proper grounds for local taxation.

(2) Land (except land already dedicated to public use) and land only should be rated for local public services.

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- (3) Existing contracts should be recognized.
- (4) The levy should be made upon the occupier, with the right of deduction, after the income tax method, secured to each lessee in respect of the superior interests in the land.

Practical Steps Towards the Rating of Land Values

Bills to promote the rating of site value were introduced into the House of Commons in 1902 and 1903 and rejected. Bills introduced in 1904 and 1905 made some progress but were not carried through all their stages.

Glasgow Corporation had promoted private bills for the purpose of rating land values in 1899 and 1900 without success. A Select Committee was appointed in connection with the Land Values Taxation (Scotland) Bill, 1906. Their conclusions were as follows :—

(1) The taxation of land values is justified because the creation and maintenance of the value of land depends upon the presence, enterprise and expenditure of the surrounding community.

(2) No burden will be placed upon industry thereby.

(3) Building improvements will be stimulated, overcrowding abated and rents lowered.

(4) Existing contracts are no impediment to the levying of a new burden.

The Finance (1909-10) Act, 1910

As may have been observed, up to this stage the question of deriving income from this source had been regarded as the province of the local authorities. In 1909 the then Chancellor of the

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Exchequer (Mr. Lloyd George) introduced his Budget, which included a number of new proposals for raising revenue for national purposes, including the taxation of land values. These proposals were incorporated in the Finance (1909-10) Act, 1910. The land value duties introduced in this measure were:—

(1) Increment Value Duty—20 per cent on the increase in value of a site at the time when land changed hands, less 10 per cent of the original value. Increases of less than 10 per cent were exempt from this duty. Rating authorities and statutory undertakings were exempt.

(2) Reversion Duty—10 per cent upon the difference between the value of property when the lease was granted and when it comes to an end. It applied to structure as well as site and naturally would produce more on the former than the latter.

(3) Undeveloped Land Duty— $\frac{1}{2}$ d. in the £ per annum on the site value of urban undeveloped land. There were various abatements and exemptions including public parks and open spaces.

(4) Mineral Rights Duty—1s. in the £ on mineral rental values and wayleaves.

In May 1911 a large number of members of Parliament presented a memorial to the Government with the object, *inter alia*, of securing legislation—

(a) To empower local authorities to levy rates on the basis of the State valuation of land; and

(b) To provide a national fund out of the proceeds of a tax on land values to be allocated towards the cost of such local services as education, poor relief, main roads, asylums and police.

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It should be added that the Chancellor of the Exchequer had stated that the valuation of land, apart from improvements, was regarded as the necessary basis for the reform of local taxation, and in this manner the fortunes of the local authorities were intimately bound up with the scheme of the Government.

These duties interfered with a source of income which local authorities considered to be peculiarly theirs. As a concession, Section 91 of the Act provided that one moiety of the produce of the duties levied under the Act should be assigned to local authorities. Under Section 16 of the Revenue Act, 1911, the operation of this provision was postponed until March 31, 1914. The Government set up a Land Valuation Department and a start was made to value all land in the United Kingdom on the basis of its capital value and its original site value and also a quinquennial valuation of all undeveloped land for the purpose of levying the duties. This valuation was never completed owing to the intervention of the Great War. After the War, a Committee was set up to inquire into the working of the land value provisions, which resulted in the repeal of some of the duties in 1920, the rest of the provisions in 1923. Revenue collected under these provisions was paid back to the taxpayers.

In 1930 the Chancellor of the Exchequer (now Viscount Snowden) promised to undertake the task

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of introducing fresh legislation in the form of a Land Valuation Bill to provide the basis for both the taxation and rating of land values. A change of Government brought these proposals to an end.

It should be observed that the duties provided for in the Budget of 1909 differed entirely from a straight tax or rate on site values. They were only chargeable on certain categories of land and the fate of these duties was by no means conclusive as to the levy of a General Rate on the capital value of land or urban sites.

The Case for Rating Site Values

It is claimed by its advocates that a system of rating of site values would obtain from land its fair share of taxation, especially in the neighbourhood of towns; secure for the community the unearned increment which municipal enterprise and expenditure has created; stimulate the utilization of undeveloped land and aid industry by influencing owners to press into use land which can be profitably used for industrial development; encourage improvements without penalizing the enterprising tenant or owner; assist in the provision of working-class houses; and economize in the cost of public developments and improvements.

The increased activity in the building industry would assist in dealing with the problem of unemployment. Owners of land unfit for commercial

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development would find it more profitable to bring it into cultivation, thereby helping to find employment in agriculture and assisting in increasing home-grown food, thus strengthening our national position. A tax on land values affords the best measure of the benefit accruing to property by the energies, enterprise and expenditure of the local authority.

The supporters of the levy go on to add various arguments in its favour. Taxes on buildings (excluding dwelling-houses) are generally taxes on industry as they constitute part of the expenses reducing profits. Taxes on structures also tend to diminish the value of the land. Buildings depreciate in value and with that depreciation the proceeds of taxation. Land hardly ever loses value but usually increases in value.

The Case Against the Rating of Site Values

One error which is claimed to be inherent in the principle of site rating is the belief that the gains of trade and commerce bear some mathematical relation to the selling price of land. How far can any form of taxation be proved to be related to the benefits derived from local expenditure? Expenditure upon improvements such as highways, sewerage, social amenities, and so on, undoubtedly affect the value of land, but that benefit is only acquired when the land is developed or sold. The cost of services directly related to property such as roads and sewers

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is usually paid for by the frontagers, or benefiting owners. In the case of many local services the benefit to property is difficult to establish. Take, for example, the most expensive local services, public education and poor relief. How can any benefit to a site owner, *qua* owner, be established? To place a special tax on land is to select one form of property for special taxation, which it is claimed is not equitable. Land is already taxed for Schedule A on its annual value. A rate on capital value would be double taxation. If a tax is levied on vacant land, would unoccupied premises be also rated? (In passing it may be added that Parliament has recently refused to pass a Bill for rating unoccupied property in London.) There is considerable agricultural land in urban areas, even in county boroughs. Would this be exempt? Agricultural land has recently been entirely exempt from rateability and local authorities compensated therefor. Would local authorities now expect to tax the land on its selling value and, if so, would this be equitable?

In areas where accommodation is inelastic will not owners make occupiers pay the new rate by raising rents by the amount of the rate? Since local authorities have become such large owners of house property, and particularly having regard to the effect of the Housing Act, 1935, in leaving the responsibility for the fixation of the rents of the 1919 Act houses with local authorities, a consideration

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which must be recognized to be of serious consequence to local authorities, is the effect of a tax on land values in so far as it transfers the incidence of burden from the occupier to the owner of the site. The ultimate result of lowering rents and increasing the site owner's burden must not be overlooked.

Rating of Site Values in Other Countries

Denmark and Germany appear to be the only Continental countries in which the rating of land values has been adopted for local purposes. In Denmark land is valued quinquennially showing capital values apart from buildings or improvements and, since 1926, rates have been levied at a higher rate on land alone than on buildings and improvements.

In Germany, since 1899, property has been assessed on market value in lieu of annual value. Communal ratepayers were dissatisfied with the burden of rates under the former system, under which rates were levied upon assessments made by the State in the form of a surtax. The assessments bore no relation to current values, particularly in areas where the population was increasing considerably. The change in rating land on market values led to a readjustment of the burden between land and buildings particularly advantageous to the smaller type of dwellings. It is claimed that the system has operated fairly. The increased cost of valuation was

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not worth considering compared with the benefits secured from the change.

In the United States taxation of land on its capital value is the main source of local revenues. Properties which have increased in value by reason of local expenditure are liable to special assessments, the additional value being assessed, and the owner charged on the capital sum for the increased value. The charge may be paid by instalments. Owing to the taxation of land on its selling value, if the value rises with an increase in the neighbouring population, the owner must continue to bear his share of the local expenditure even though it is withheld from use.

In most of the capitals and larger cities in the British Empire rates are levied on land values whilst buildings are either relieved or entirely exempt. These places include Brisbane, Durban, Edmonton, Johannesburg, Pretoria, Regina, Sydney, Vancouver, Victoria, Wellington and Winnipeg.

In Canada taxation based on the ownership or tenancy of land is the main source from which local revenues are derived. In the Western Provinces particularly the towns and country districts levy rates based partly or wholly on land values.

In Australia the revenues of the local authorities are mainly derived from rates on the improved capital value of land, or the annual value of land and buildings, or on either, at the option of the local

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authorities. In New South Wales and Queensland all local authorities have adopted the land value policy. In Sydney, with the exception of water and sewerage charges, all rates are raised in this manner. Throughout Queensland houses and buildings are not even valued, the values not being required seeing that all rates are levied on land values.

In New Zealand rates are levied chiefly on the capital, annual or unimproved value of property. The system of rating on unimproved values may only be adopted if supported by a poll of the ratepayers which is confirmed triennially.

It is apparently impossible to dissociate this subject from party political controversy, and yet only comparatively few of the general public are sufficiently well informed to be able to discuss it in all its bearings. One of these days it may appear as a "plank" in a political party platform and be tried out by those successful at the polls, even if the election be fought on other principal issues. It has been remarked in more than one debate that no one could tell how the rating of land values would work out in this country until it was tested in use, but the fears of disturbance in legal contracts have so far prevailed in Parliamentary circles. In Chapter 12 there are further references to the subject.

CHAPTER 12

The Possibilities of Local Income Tax, etc.

Introduction

In the search for a more equitable basis of raising money for services administered by local authorities, various alternatives have been suggested. These include an increase in the Government Grants-in-aid; taxation of additional subjects, such as guns and bicycles; increased charges to cover the cost of amenity and recreative services; taxation of land values; rating of empty property; and last, but not least, a local income tax. Mr. John Allcock, while City Treasurer of Cardiff, was a great student of this subject, and his publications about it have always been both authoritative and constructive.

Local Income Tax

In support of a proposal to levy a local income tax it is said that the only basis on which the principle of the ratepayer's ability to pay can be assessed is by means of a local income tax.

Opponents of such a scheme express the view that to have two kinds of income tax is both unnecessary and undesirable, because if the principles were

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sound the imperial Income tax might be increased and grants made therefrom to local authorities in respect of services of a national or semi-national character administered locally. They add, moreover, that any such arrangement would be calculated to lead to extravagance, and that it would not equalize local burdens or local needs.

Historical

The idea of a local income tax was considered by the Departmental Committee on Local Taxation in 1911 and the following years, the principal advocate being Viscount St. Aldwyn, a man of very wide knowledge and experience, and at one time Chancellor of the Exchequer. In giving evidence in favour of such a tax, he urged that in any case the Government should seriously consider the Prussian system. The system as carried out in Germany has (or had) some points of interest. The tax cannot be levied on the following classes of persons: Those under eighteen years of age, or in receipt of either unemployment pay or public assistance payments or those whose total earnings do not exceed 130 per cent of the amount they would receive were they dependent on assistance in the year of collection. The Minister of Finance has the power to exempt further personal circles from tax duty over and above those included in the foregoing direction. The rate of tax is graded according to income.

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The tax is reduced in cases where there are two children under age in the home. The combined incomes of the householder and his wife are to be included in the return on which the tax is levied. If a local authority desires to levy a local income tax which is higher than the table already mentioned, such authority must obtain the sanction of the Minister of Finance. Certain partial exemptions are made for blind persons. Tax cards are issued to all workmen paying the local income tax by way of deduction from wages.

It is claimed on behalf of the supporters of a local income tax that if a tax of this description is working well in Germany, and if it is admitted that such a tax would more equitably spread the burden of local taxation, it does warrant at least an exhaustive inquiry as to whether some such system could be applied in this country. In the operation of such a local income tax, according to published statements, the present limit of expenditure or abatement in the levy of the Imperial tax should not apply. Anyone earning salary or wages or drawing profits from business carried on in the area of a local authority should be called upon to pay the tax. It would be quite possible, it is said, for the tax to be paid by wage earners by way of a weekly deduction from wages. If, therefore, a local income tax would cause local burdens to be more equitably distributed than at present, then it should not be beyond the ability

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of those concerned to create the necessary administrative machinery as the result of an inquiry by the Government into the subject.

So runs the case for a local income tax. Perhaps, like the rating of land values, a small dose of practice may terminate a long period of theorizing, but who is likely to carry the experiment through Parliament?

Rating of Empty Property

In the Parliamentary Session 1936, the London County Council promoted a Bill to provide for the rating of owners of unoccupied hereditaments in Metropolitan boroughs and for purposes connected therewith.

One of the arguments used in support of this was that the City of London had had this power up to 50 per cent since 1839. It was pointed out, however, by those who oppose the proposal that the General Rate in the City of London covered only a few services, and was only 1s. 1d. in the £. In the metropolitan boroughs it covered all services, including that very expensive one of education. In the City of London the charge on unoccupied property was 6½d. in the £, whereas in the county generally, where the average rate was 14s. 6d., one-quarter would be over 3s. 6d. Another argument was that this system was in operation in Scotland, where the owner had to pay whether the property was occupied or not. But prominent representatives of Scotland

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had been trying for many years to get the system altered to conform to the English system. Another argument was that property was being held up by owners to get increased rent. This was denied, and it was added that throughout the country there was a considerable amount of property, such as old houses, which could be regarded as practically unlettable.

Consideration must be given to the problems which would arise if the proposal was generally applied, particularly in the distressed areas, and disused factories, mines and other unoccupied properties were rated.

It was urged in support of the proposals that empty properties received the benefit of local services such as lighting, police, and road maintenance. It was maintained, however, that while that was true, and property would suffer if those services were not available, they could not be withdrawn, and the cost of them if worked out and applied to unoccupied property would be negligible. It was also maintained that the proposal, if adopted, would have a deterrent effect on building by private enterprise, would destroy the value of mortgages, and would depreciate the rateable value of all property.

The Bill promoted by the London County Council, called the London Rating (Unoccupied Hereditaments) Bill, came before the House of Commons for second reading on February 26, 1936.

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The rejection of the measure was moved on the ground that private legislation of this sort should not make amendments in the general law of the country. If this Bill got on the statute book, the demand would be almost irresistible that the law should be extended to other parts of the country outside the county of London. It was estimated that 95 per cent of the houses of small people in the county of London were subject to mortgages. Many were also subject to ground rent. The effect of this proposal would be to lessen the margin of security on which money was advanced on these properties. Parliament had to consider the effect of the proposals on building societies, thrift societies, and similar organizations which advanced money on the security of the houses being purchased by their owners. It would probably be more difficult to get mortgage advances in future if these proposals were approved.

The effect would be that assessable values would come down, and if they came down, less money would be got from the rates.

The matter was one which should be dealt with in a Government Bill and dealt with so that they could have all the evidence of the whole country to see why they should make the change.

On behalf of the London County Council it was argued that empty property to-day received very considerable service from the local authority in the way of police and fire protection and in other ways.

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The real reason for the opposition to the proposal was that property owners were afraid of any change in the system of rating or taxation. The Bill was aimed at people who for one reason or another kept property out of occupation.

The Government spokesman (the Minister of Health) did not discuss the merits of the proposal in the Bill, and reminded the House that it introduced a fundamental change in the settled system of English rating and proposed to deal with it by way of local legislation. It was the view of the Government that if a change of such magnitude was to be made, it should apply to the country as a whole and should not be made by Private Bill legislation. For that reason the Government could not ask the House to vote for the Bill.

The second reading of the Bill was rejected by 254 votes to 125.

Taxation on Land Values

The practicability as distinct from the desirability of taxing land values is a subject on which there is a considerable division of opinion. A valuable contribution to the discussion of this aspect of the question is contained in the Report of the Select Committee of the House of Commons on the Land Values Taxation (Scotland) Bill which was published in February 1907. The main object of the Bill was to levy a new and additional rate on the owners of

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land in Scottish burghs. That new rate was to be fixed according to a new standard—the yearly value (calculated at 4 per cent on the capital) of land in burghs, apart from the dwellings and erections upon it, and was not to exceed 2s. in the pound.

The committee considered these proposals indefensible, and recommended that the Bill should be no further proceeded with, but having taken a large amount of evidence bearing upon the general question, the committee set forth at considerable length the conclusions at which they had arrived.

The main principle (they stated) which underlies proposals to tax land values is the setting up of a standard of rating whereby the ratepayer's contribution to the rates is determined by the yearly value of the land which he owns or occupies, apart from the buildings and improvements upon it, the object being to measure the ratepayer's contributions not by the value of the improvements on the land to any extent, but solely by the yearly value of the land itself. The justification given for the adoption of the new standard is that land owes the creation and maintenance of its value to the presence, enterprise and expenditure of the surrounding community. The value of the land is not created or maintained by the expenditure or exertion of its owner—except in so far as he is a member of the community. It is well, therefore, to select a standard of rating which will not have the effect of placing a burden upon

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industry. Hence the proposal to exclude from the standard the value of building and erections of all kinds and fixed machinery. To include these in the standard would tend to discourage industry and enterprise. To exclude them would have the opposite effect. If, then, the value of bare land apart from improvements be chosen as the measure by which to fix contributions to local expenditure, the ratepayer, it is alleged, would be merely restoring to the exchequer of the local authority part of that which he has derived from it.

Of this principle and of the reasoning on which it rests, the committee approved, and they proceeded to point out that the direct effect of its adoption would apparently be to effect a complete redistribution of the burden of rating. The indirect effects would be to stimulate building and improvements, to bring more building land into the market, to lower rents, and to diminish overcrowding. But before the new standard is adopted, it is absolutely essential that a valuation of the land as distinguished from the erections upon it should be made, and the question to which the committee directed special attention was whether it was reasonably practicable to make such a valuation. It was obvious, they said, that the fate of any measure relating to the taxation of land values must depend on the answer to this question. All the witnesses seemed to be agreed—

First, that the valuation of land sites was from the

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very nature of the case purely a matter of opinion, that absolute accuracy was necessarily unattainable, and that everything in valuation depended on the skill, experience and impartiality of the valuator;

Second, that under the existing rating system in Scotland, which had been in operation for more than half a century, a problem similar to that presented by the Bill was presented and was solved by the assessor in the ordinary discharge of his everyday duties.

The committee, therefore, came to the conclusion that valuation of building sites is practicable, and was not substantially more difficult or uncertain than is the valuation of many other subjects which fall under definition of "lands and heritages," as used in the Scottish Valuation Acts. Nor was it to be forgotten that the duty of fixing the value of the site was in the first instance laid on the owner himself. His estimate would probably be very near the mark. Unwillingly to decry the value of his own property would prevent exaggeration in downward direction, as the dislike to pay more rates than he could avoid will check exaggeration in an upward direction. The resultant of these two conflicting forces may be expected to yield a just result.

It was in the opinion of the committee undesirable that a considerable expenditure of time and money should be incurred in making the valuation for the

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first time, and as to the method, they considered that to lay down specific rules, which must be generally applicable if they were to be useful, would probably give rise to the very difficulties which it is most desirable to obviate. But they considered, in making the valuation, regard must be had to all restrictions validly imposed upon the land, and that allowance ought to be made for expenditure incurred in preparing a site for building, at all events if it had been incurred within, say, twenty years of the date of valuation. The committee thought the exemptions ought to include railways, canals, docks, piers, and harbours.

After an exhaustive examination of the claim for the exemption of superiors and owners of feu duties (the equivalent of ground rents in this country), they came to the conclusion that a superior is the owner of lands, that feu duty is truly the rent of land, and that the proposed burden was new in character and incidence.

There was another aspect of the subject, the importance of which was not always adequately appreciated. The desirability of taking land as the basis of valuation does not depend solely upon the question of the allocation of the burden between parties.

The most valuable economic advantages of this reform flow from the change in the basis of rating. These are said to be—

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(a) That houses and other improvements would be relieved from the burden of rating, and this would encourage building and facilitate industrial development.

(b) That, regards the large towns, it would enable land in the outskirts to become ripe for building sooner than at present, and would thus tend very materially to assist the solution of the housing problem. It would also have a similar effect in regard to rural districts.

Taxation of land values, the committee pointed out, was advocated equally strongly by persons who take different views as to what proportion ought to be contributed by the various persons interested in the property.

CHAPTER 13

The Audit of Income and Expenditure Out of Rates

THE SPASMODIC development of local government administrative systems has been responsible for a legacy in the variety of municipal accountancy and audit methods which we have inherited. During recent years a large measure of order has been evolved out of previous chaotic conditions culminating in the consolidation of legislative provisions in Part x of the Local Government Act, 1933.

The types of audit systems now in operation may be classed as (i) statutory and (ii) non-statutory. Under the provisions of the Local Government Act, 1933, local authorities, except parish councils, are empowered to appoint such officers as they think necessary for the efficient discharge of their functions. This provision is considered wide enough to authorize the appointment of officials to carry out an audit of their accounts, but there is no specific statutory requirement (if such were needed) that a system of internal audit should be in operation.

Statutory audits are those conducted by—

- (i) District auditors;
- (ii) Borough auditors; or
- (iii) Professional auditors.

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District Auditors

Under the unreformed poor law systems, overseers were required to submit their accounts to the justices, who were empowered to disallow or reduce expenditure.

The Poor Law Amendment Act, 1834, without abolishing the Justices' power, required the appointment of an auditor by the Guardians, removable only by the Central Commissioners, and authorized him to disallow illegal payments and surcharge them upon those responsible therefor. In 1844 the Justices' powers in this respect were abolished and the central department was authorized to combine areas into audit districts. In 1868 the appointment of the auditor was transferred to the central department. The District Auditors Act, 1879, established a central audit department and reorganized the system of audit procedure. The statutory provisions are now contained in the Local Government Act, 1933, Part x. Although no statutory qualification is established, since 1922 new appointments have (it is stated) been confined to solicitors, barristers, accountants, district auditors' assistants and officials of the central department. Most of the district auditors are by this time experienced in accounts when appointed.

The accounts of almost all local authorities, committees and officers, except borough and county

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borough councils, are subject to district audit. Even in the case of boroughs and county boroughs, the rating, education, public assistance, road fund, licensing, and probation officers' accounts, if any, are subject to district audit. In the case of some boroughs (e.g. Merthyr Tydfil) all the borough accounts have been made subject to district audit. Other boroughs have secured authority for their accounts to be audited in this manner. The Local Government Act, 1933, has made provision for enabling any borough council to have the district audit system made applicable to all their accounts, if they resolve upon it, in preference to an audit by professional accountants or borough auditors.

Nature of the District Audit

The Minister of Health is empowered to make rules, regulations and orders applying to the system of district audit and the accounts audited under this procedure. The following have been issued in this connection:—

Urban District Councils Account Orders, 1880 and 1881.

Audit Stamp Duty Order, 1921.

Accounts (Payments into Bank) Order, 1922.

Rating Authorities Accounts Orders, 1926.

Boroughs and Metropolitan Boroughs Accounts Regulations,
1930.

Public Assistance Accounts (County Councils) Regulations,
1930.

Audit Regulations, 1934.

Housing Acts (Equalization Account) Regulations, 1935.

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The district auditors and their assistants are appointed by the Minister of Health, who assigns to them their districts and their duties. Their salaries are paid by the Treasury but the cost is recouped from charges made against the local authorities on the basis of the expenditure audited. There are provisions for the payment to be based on the actual cost of the audit if less than the amount payable under the scale.

Accounts subject to district audit must be made up yearly to March 31st or such other date as the Minister may appoint. Fourteen days' newspaper notice must be given of the date of audit and for seven days prior to the audit the accounts and all books, deeds, contracts, vouchers and receipts must be deposited at the appropriate office of the local authority, during which period they must be open for inspection by any person interested, who may make extracts and copies without charge. An officer refusing to comply with these provisions is liable to a fine of £5. In a recent case (Monmouthshire County Council Case, K.B.D., 1935) it was held that the claim of a parent for payment of a bursary to his child was not a "voucher" liable to be produced for inspection.

A financial statement must be prepared and submitted to the auditor. There is liability to a penalty of £20 for failure to submit this statement. The auditor may require any accounting officer to appear

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before him and sign a declaration as to the correctness of any document. Refusal to comply with this provision involves liability to a fine of 40s. Making an untrue statement constitutes perjury. Any local government elector may appear before the auditor, or be represented at the audit, and object to any item appearing in the accounts. Within fourteen days after the completion of the audit the auditor must send a report to the local authority. This report must be considered at the next ordinary meeting of the council. In the case of parish accounts the report is sent to the Minister instead of the local authority.

Disallowance and Surcharge

The auditor must disallow every illegal item of expenditure and surcharge it upon the persons responsible for the payment. Any sum lost to the authority must be similarly surcharged. This may apply to any interest liability through failure to levy sufficient rates or collect housing rents due to the authority. If required to do so, the auditor must give a written reason for his action. The amounts must be paid to the treasurer of the authority within fourteen days of certification by the auditor unless an appeal or application for relief has been lodged against the auditor's decision. Appeals lie to the High Court, but if the amount does not exceed £500, the Minister may hear and decide the appeal.

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The Court or Minister may remit a surcharge if satisfied that a person has acted reasonably or in the belief that his action was legal. A local authority may secure the Minister's sanction to prospective expenditure, in which case the auditor cannot disallow it.

The Minister's sanction would be no defence, however, if the expenditure is challenged as illegal in the Courts. The Minister may be required to state a case for the opinion of the High Court on any question of law involved in his decision when exercising his right to hear appeals. In the Poplar Case (*Roberts v. Hopwood* [1925], A.C. 578) the House of Lords held that a local authority acts in a fiduciary capacity to the ratepayers and any excessive expenditure (in this case on wages higher than those of private employers) was illegal. If not excused on appeal, surcharges must be paid within fourteen days, after which they may be recovered summarily or otherwise as a civil debt. The Minister may appoint persons to assist district auditors but without powers of allowance, disallowance or surcharge.

The district auditor is able to take up a strong attitude with a local authority because of his independent position and his power of disallowance and surcharge. He has the advantage of dealing with the accounts of other local authorities and becomes a specialist in municipal accountancy. On the other hand the audit of the district auditor is regarded by

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many competent judges as a legal rather than an accountancy audit. The auditor pays great attention to the meticulous application of Government regulations, frequently involving scrutiny of matters not necessarily connected with an audit of accounts. Frequently questions involving the policy of the local authority are raised and investigated which are considered by some councils to be outside his terms of reference. The auditor's report, it is alleged, comes too late to operate as a preventative against irregularities.

The Borough Auditors

The Municipal Corporation Act, 1835, which brought about a measure of financial reform in all boroughs, introduced a new method of audit. The mayor was required to appoint a member of the borough council each year to be "mayor's auditor." Two other borough auditors were to be elected on March 1st each year by the burgesses from those qualified to be, but not being, members of the council. No professional qualifications are prescribed for these auditors. As soon as may be after the date to which the accounts of the borough council are made up each year (normally March 31st) they must be submitted, with the necessary vouchers and papers, to the borough auditors for audit. The only remuneration payable to the borough auditors is in respect of the public health accounts, for which

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they are entitled to not less than two guineas per day.

Nature of the Borough Audit

It is almost universally agreed that this type of audit was obsolete and ineffective. The auditors were seldom qualified to carry out a proper audit or go further than the cash book of the treasurer. It was difficult to define the limits of their statutory liability.

In the case of *Thomas v. Devonport Corporation* (1899) the Lord Chief Justice (Lord Russell) stated that the borough auditors are justified and bound to go further than merely see whether there were vouchers, formal and regular, to justify every item in the accounts.

There should be a fair and reasonable examination of the accounts to discover whether there are unauthorized or illegal payments and, if so, to make them public, and certainly to report them to the authority and to the burgesses.

The Local Government Act, 1933, has removed former doubts as to the extent of the audit by relating it quite definitely to the accounts of the borough council—other than those subject to audit by the district auditor.

Reports of borough auditors are frequently more spectacular than practical. Items which disclose any incident of civic feasting or expenses paid to members

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of the council are emphasized, whilst important matters, such as the adequacy of reserves or depreciation allowances, are seldom dealt with. The basis of remuneration is inadequate to the services which are required if a proper audit is conducted or to attract a professional auditor to stand for election. Where a competent person serves in this capacity it can only be regarded as a voluntary act of citizenship. Modern principles recognize the necessity for adequate remuneration to be paid for such services.

The accounts of some boroughs have been made liable to district audit on account of irregularities which have been disclosed. In some other cases boroughs have applied voluntarily for this form of audit. In this way the whole of the accounts of the borough are made subject to one type of audit and uniformity of audit procedure is introduced, though many councils view such a course with disfavour, and prefer a professional and continuous audit to an annual or half-yearly audit by a Government official.

Professional Auditors

The Joint Select Committee on Municipal Trading, 1903, recommended the abolition of the district and borough audit systems and their replacement by an audit by professional auditors. They also recommended the abolition of the powers of disallowance and surcharge and outlined the scope of the certifi-

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cate of the auditor. The inadequacy of the borough audit system encouraged the more progressive boroughs to appoint professional auditors in addition to the legal audit, and in some cases private powers were obtained to supersede the borough audit system.

In 1933 general powers were granted to all borough councils, in lieu of the borough auditors, to appoint professional auditors or, alternatively, to extend the district audit to all their accounts. These provisions are now incorporated in Part x of the Local Government Act, 1933, and are being extensively exercised. For that reason references to the weaknesses of an audit by elective auditors are made in this chapter in the past tense, rather than the present. Every local authority is well advised to have a complete audit of its accounts by qualified auditors—Government officials or professional accountants, as the case may be. They should not rely on an audit carried out by men inexperienced in accountancy who may happen to be elected by a public poll.

CHAPTER 14

Investments with Local Authorities

THE MORE a citizen or student knows of British local government, the more confident he may feel that its financial management is sound and that it has earned a place in the estimation of those who possess not only a sense of civic pride and responsibility but also a desire to assist local government in other directions than that of personal service. Why not, therefore, help the local council in the provision of its capital? Rates, of course, have to be paid, but local authorities require capital also, and many citizens do not realize that there are few, if any, better investments than loans to local authorities. In the north of England and in Scotland most local councils accept savings of local thrifty people on loan secured by a mortgage of the rates. This practice represents co-operation between councils and public, in a form wholly beneficial to government and to citizenship. Not so many towns in the south raise their capital from local lenders, but the number who do is increasing, and rightly so. The necessity for borrowing by local authorities has increased considerably with the extension of municipal trading and the ever increasing demand of the

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social services. Both types of undertaking necessitate the borrowing of money for capital purposes. The practice of spreading certain types of expenditure over a term of years is a more equitable method of meeting the capital cost of providing facilities which will be shared by a future generation than paying the whole cost out of revenue forthwith, because the payment for those benefits is then shared by those ratepayers of later years who will have the advantage of them. It has always been the policy of Parliament to insist that local authorities should repay their loans within a limited number of years in order to prevent the establishment by any local authority of a permanent debt. To secure this object, statutes which confer borrowing powers upon local authorities invariably specify a maximum period for the repayment of loans raised under the powers conferred. Within the limits thus established, a discretion as to the period of repayment is left, as a rule, to the Central Sanctioning Authority specially concerned with the matter for which the loan is required, so that they decide the exact term of the redemption of each particular loan. Usually the loan is spread over the period representing the economic or useful life of the assets, but in many cases this stipulation goes further, in that it requires the debt to be paid off although the full asset value remains, e.g. purchases of land. The loans of local authorities rank next in status after that of Government loans.

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Methods of Borrowing

These may be classified as follows, viz. :—

1. Mortgages (Local Government Act, 1933).
2. Housing bonds (or by Local Act, Local Bonds) (Housing Acts and Local Acts).
3. Debentures (Local Government Act, 1933).
4. Annuities (Local Government Act, 1933).
5. Stock (Local Government Act, 1933).
6. Utilization of sinking funds (Local Acts and Stock Regulations).
7. Bank overdraft (Local Government Act, 1933).
8. Bills of exchange (Local Acts).
9. Municipal bank deposits (Local Acts).
10. Simple deposit notes.

Method 10 is not very clearly authorized by law, but is at times adopted with the concurrence of the lenders.

Although not specifically mentioned in the above classification, it may be well to begin with a few notes on loans to local authorities out of the proceeds of National Saving Certificates. It may well be that unconsciously a ratepayer has begun his financial relations with the capital of his local authority by the investment of the modest sum of sixpence in the purchase of National Savings Stamps at any post office. These, as is well known, may be affixed in a Stamp Savings Book, which can be obtained on application. When thirty stamps are affixed to the book they can be exchanged for a Savings Certificate at any post office which sells National Savings

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Certificates. Alternatively he may join an Association with similar facilities. No person may, either individually or jointly, hold, or have an interest in, more than five hundred Unit Certificates, or their equivalent in multiple Certificates, whether of one issue or a combination of issues. The Treasury is authorized to enter into arrangements with any local authority through the machinery of the Public Works Loans Board, whereby one-half of the proceeds of the sales of National Saving Certificates in the area of the local authority may be advanced on loan to the local authority for municipal purposes. The local authority is thereby interested in the advertising and extension of the movement. This method was started in October 1920 under powers conferred by the Finance Act, 1920, Section 59, to assist in the financing of housing schemes, but was extended the following year to all purposes for which the Public Works Loan Commissioners may lend. The process is identical with borrowing under the Public Works Loans Act, 1875, but is not restricted to the smaller authorities. Many local authorities have obtained funds for capital purposes by thus sharing in the uses to which the proceeds of National Savings Certificates are put.

Mortgage of Rates and Revenues

Where a ratepayer has acquired his maximum holding of five hundred Unit National Saving

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Certificates, he may then consider how to invest his further savings to the best advantage, for the Post Office can accept no responsibility if Certificates are purchased in excess of the limit of five hundred Unit Certificates. In such circumstances, and in any case, a thrifty person may well turn his attention to taking out a mortgage with his local authority. This is a most popular method of borrowing. The Mortgage Deed in prescribed form, or in form to the like effect, duly stamped and sealed, is secured on all the revenues of the local council by way of security for the loan. Forms of mortgages and transfers have been prescribed by the Minister of Health in the Local Government (Forms of Mortgages and Transfers) Regulations, 1934. The Public Works Loans Acts, 1875 to 1882, prescribe the form of mortgages for loans raised under those Acts. The clerk of a local authority is required to keep a Register of Mortgages which must be open to public inspection without charge (Local Government Act, 1933, Section 207). Provided the amount in default to be not less than £1,000, application may be made to the High Court for the appointment of a Receiver upon default by the local authority in payment of principal or interest. Fortunately, no occasion has arisen for this step to be taken. Lenders are now relieved from inquiring whether the borrowing of money was legal or regular or whether the money raised was properly applied, and they are not prejudiced by any illegality

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or irregularity or the misappropriation or non-application of such money. Borrowing by mortgage is the only method authorized for parish councils. Many advantages accrue under the system of borrowing by mortgage. An appeal may be made to local civic patriotism to encourage citizens to invest surplus funds with their native town. The man of small resources finds a safe security which keeps his capital value intact and secures its certain return.

Housing Bonds

The small investor particularly may prefer to lend whatever funds he may possess to his local authority. In such an event he will find the Housing Bonds an advantage, for they are now issued under the Housing Act, 1925, for a period of not less than five years, and in denominations of £5, £10, £20 and £100 and multiples thereof.

To help in the borrowing for post-war housing, facilities, which had been provided for financing the Great War, were made permanent by the Housing (Additional Powers) Act, 1919, to enable local authorities to issue Bonds with exceptional privileges attached thereto. Interest on holdings not exceeding £100 may be paid without deduction of income tax at the source. The Treasury is authorized to fix rates of interest. The Bonds are secured upon all the rates, properties and revenues of the local authority. The usual necessity for sealing

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is dispensed with. Mortgages granted after 1919 by any authority authorized to issue Housing Bonds are raised to the status of trustee securities by the Trustee Act, 1925, Section 1 (*p*), thus opening a wider field of opportunity for investments with the authority. Stock issued by a municipal corporation will be a trustee security only if the population exceeds 50,000 in accordance with the Trustee Act, 1925, Section 1 (*m*), but the stock of all county councils has that status. To gain this privilege Bonds need not have been actually issued, so long as the authority to issue has been obtained. Founded on this practice, some towns have by local Act secured powers to issue Local Bonds as security for loans to the council. They are arranged rather like Housing Bonds.

Debentures

Another class of small investment is a Debenture which is a mortgage of the local rates. Any authority empowered to levy a rate or precept is authorized to issue Debentures and Annuity Certificates under the Local Loans Acts, 1875 and 1885. Debenture Stock may also be issued, but only if the authority has power under some separate provisions, a stipulation fatal to the wide operation of its facilities. There are other limitations to its utility. Discount and expenses of issue cannot be included in the nominal capital sum, and borrowing powers are lost thereby. The Acts provided that loans should rank in priority

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of date, but for the future this has been modified by the Local Government Act, 1933, Section 197 (1), and all money borrowed after the passing of that Act by a local authority is now charged indifferently on all the revenues of the authority.

A Debenture may be issued by a county council for not less than £5. No provision is made for reborrowing, and the sinking fund provisions are not regarded as the best model to-day. In spite of these provisions the City of London issues Stock under its provisions, and their security is good enough for most investors. The Trustees Securities Committee, 1928, recommended the repeal of these Acts, but the provisions have been left extant by the Local Government Act, 1933.

Annuities

With advancing years, it may be that the ratepayer will seek to obtain a larger return for his capital than has been provided by means of the other methods which have been described previously. In such an event, Annuities constitute an attractive means of investment.

Borrowing by means of Annuities consists of the payment of a fixed sum to the annuitant. Annuity certificates may be terminable or perpetual. The former are limited to a certain term of years. The latter are granted in perpetuity, and can be redeemed only by repurchase, usually at great cost.

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This method was popular a century ago in providing an attractive method for securing the surrender of the rights and interests of owners and shareholders in works of public utility, such as water and gas undertakings which a local authority were acquiring. It was a method sanctioned under the Local Loans Act, 1875, but it has become obsolete through more modern methods. Under the statute mentioned, Annuity Certificates must not be for a sum less than £3.

Stock

In order to attract the large as well as the small investors, local authorities have since the latter part of the last century acquired powers to issue Stock.

The Local Government Act, 1933, provides that any local authority, except a parish council, having power to borrow, may raise money by the issue of Stock, subject to the consent of the Minister of Health (Section 196 (6)). This enables rural district councils now to issue Stock. Metropolitan Borough Councils, however, are not empowered to issue Stock. The London County Council can and do raise Stock and they lend large parts of the proceeds to Metropolitan Boroughs. The Local Authorities (Stock) Regulations, 1934, have been issued by the Ministry of Health and supersede former Regulations and apply to all authorities, including county councils. A local authority must first have statutory

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power to issue Stock. This may be under a Local Act, or under the Local Government Act, 1933. If they have the necessary authority they may proceed under the provisions of the Local Loans Act, 1875, or the Stock Regulations referred to above. Under the Stock Regulations, a Consent Order from the Minister of Health is necessary for the creation of Stock. The Consent Order authorizes the issue, specifies the sanctions concerned, fixes the rate of interest and date of redemption. The Sinking Fund contributions are stipulated, and it is stated whether the Fund is to be accumulating or non-accumulating. In the case of boroughs with a population of 50,000, and all counties, Stock issues are trustee securities. Usually investments in Stocks of local councils can only be made on application after a prospectus has been published offering the Stock by public subscription. In other cases, a stockbroker will acquire Stock on the market for a client. There remain three other methods which may be considered at this juncture.

Bills of Exchange

Local authorities have no general power to issue money bills or promissory notes. The Treasury frequently float an issue of Treasury Bills to "tide over" pending the receipt of money by taxation. Money bills are promises to pay a certain sum at a fixed date, and those who have recourse to this

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method sell bills of fixed denominations at the best figure they can obtain. The exercise of this power requires considerable knowledge of the money market and the technicalities of public finance, and it is generally considered that any general powers to any local authority to issue money bills is undesirable. Loans raised in this manner are "unfunded," that is to say, the security has a limited short life and is not permanent or even of long duration. New bills may be floated to pay off a previous issue and thus an unfunded debt may be carried over considerable periods. Large sums may be obtained in a very short time and utilized in the interim pending an issue of Stock or the receipt of ordinary revenues.

Special legislative sanction must be obtained by any council to enable money bills to be issued. The London County Council and the Glasgow City Council were the pioneers of this method in 1896. Other large municipalities followed suit, but Parliament is very loth to extend the power.

Municipal Savings Bank Deposits

In order to attract War Loans, the City of Birmingham commenced to accept loans on deposit in 1916. In three years 24,400 depositors had deposited over £600,000. This Bank automatically ceased operations three months after the end of the War. The success of the experiment encouraged the city

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authorities to seek powers to continue the process for civic purposes. The necessary powers were obtained by special Act in 1919. The Birmingham Municipal Savings Bank has proved an unqualified success. In 1929 powers were obtained to open branches in the area of any adjoining authority with consent of that authority. There are now over fifty branches within the city and some in contiguous areas. There are 400,000 depositors and £20 million deposits. More than £5 millions has been advanced upon mortgage for the acquisition of houses, and there are nearly seven thousand mortgages in force. Sums representing about one-half of the outstanding deposits are invested in trustee securities, including War Stock, the remaining moiety being lent to the City Council for general municipal purposes. The rate of interest, however, is taken at the current borrowing rate from outside sources as much as possible, so the Bank is not used to obtain cheap loans at a low cost. Parliament subsequently has refused to extend these powers to some local authorities, and granted them subject to certain provisions for Treasury control in others. A Departmental Committee report unfavourably to its extension, especially by local legislation.

Simple Deposit Notes

Some local authorities accept loans upon the issue of a Deposit Receipt. The legal sanction relied upon

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appears to be that the Finance Act, 1899, Section 8 of which expressly excludes from stamp duty for a loan on capital "any county council or municipal corporation bills repayable not later than twelve months from their date or any overdraft at the bank or other loan raised for a merely temporary purpose for a period not exceeding twelve months."

An undertaking is usually given to exchange the receipt for a duly executed mortgage deed upon request.

Conclusion

Such are the various methods available for the investment of the ratepayer's money primarily—though not necessarily—within the confines of his own local government area. It is scarcely necessary to add that local financial officers in most northern areas and in a number of southern areas also are ready and willing to aid the prospective investor in making an investment with the council to secure the benefits of such loans on terms which prove mutually advantageous to all parties.

CHAPTER 15

General Conclusions

IN THE preceding chapters consideration was first given to the reasons why rates were levied and not other forms of local taxation, the conclusion to be drawn being that the system has continued primarily because of historical reasons. Since the system was introduced some four hundred years ago, social, economic and industrial conditions have entirely changed. It is almost universally admitted that the rating principle is so full of glaring inconsistencies and anomalies as to be quite unsatisfactory for its purpose.

It does not possess that elasticity which is a necessary attribute of a good system of taxation if it is to bear the increased strain imposed by exceptional circumstances, such as industrial distress. Social and industrial developments, particularly during the past century, have contributed to convert purely local services into services compulsorily imposed by the State and demanding a uniform national standard of administration.

It was pointed out that the person liable for rates is the occupier. It is generally admitted that the assessment of such persons has no relation whatever

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to the person's ability to pay, and that too great inequalities prevail under existing conditions.

The troublesome nature of the present system is seen in the wide divergencies in local rates in various areas. The rate in the pound for 1935-6 in Bournemouth was 7s. 4d. and in Merthyr Tydfil 28s. 5d. The unequal burdens falling upon individual ratepayers are further complicated by the fact that the heavy rent paid by a shopkeeper occupying premises in an important thoroughfare might be no reliable guide to his ability to bear the burden of the rates he was called upon to pay.

The basis of assessment to local rates has been described. It may be concluded that while in some areas properties are by no means fully valued for assessment purposes, a stereotyped uniformity in valuation may not be entirely consistent with principles of fairness. Some elasticity in local measures is welcomed, provided there is no unfairness as between one type of ratepayer and another. We have seen the creation of larger areas (cities and county boroughs) as the valuation areas under the Rating and Valuation Act, 1925. Moreover, the principle has been further accepted of seeing that assessment authorities are representative of all rating authorities. The natural reluctance to effect too great a change in local administrative machinery was indicated by the ultimate rejection of Government official participation in valua-

General Conclusions

tion for rating purposes as not being desirable or necessary.

The relationship between rates and grants or other income has been presented. In 1910, 40 per cent of the nation's expenditure was devoted to the provision for naval and military defence, a proportion which had fallen to 14 per cent in 1933. During the same period, however, the amount set aside for service of the National Debt had risen from 14 to 29 per cent. Meanwhile that part of the nation's spending which most directly affects the standard of living of the workers of the country, namely, the amount devoted to the social services, education, national insurance, health, and unemployment, widows and orphans and old-age pensions, and the Exchequer's contributions to local authorities, had risen from £38,000,000 in 1910 to £296,000,000 in 1933. The proportion for 1910 was about 22 per cent and in 1933, 38 per cent of the total national expenditure; or, to put it in another way, while the population within the period had grown by one-tenth, the amount of the Exchequer's expenditure on social services had increased eightfold.

But in addition to the money raised by taxation and spent by the Exchequer on social services, there is also the greatly increased sum spent by local authorities, part of which expenditure has been financed by Exchequer grants. In 1910 local government authorities spent on education, relief of

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the poor, housing and public health, £55,000,000. By 1933 the expenditure under these headings had risen to £201,000,000, and is still rising.

This vast expenditure has only been possible at the cost of a considerable increase, both in taxation, especially income tax, and death duties, and local rates, part of which has fallen on the working class.

The vast increase in local authorities' expenditure is a result not only of the intensification of all local government services but also of the addition of many new ones. This process has obviously had a far-reaching effect on the welfare and economy of the nation.

Parliament is continually placing upon local authorities the responsibility for the administration of new functions, which have imposed burdens not anticipated when the rating system was inaugurated. There is continuous pressure for more of the cost of these national services, locally administered, to be paid for out of national funds.

The public health service of local councils embraces in its scope functions ranging from the provision of drains to the feeding of babies. It provides sewers, cleans the street, endeavours to prevent the spreading of disease, tends the sick and generally cares for the physical well-being of the community. All these activities have a considerable economic value, for by preventing ill-health, they benefit industry and trade, as both these factors in our

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economic life depend for their efficiency on the physical ability of the employees. A decent standard of life is absolutely dependent upon health and education and it is to the local authority that credit must be given for the improvement which has taken place.

To these factors contributing towards the common weal must be added that of security, and this also is provided by local authority as the agent for the State. This security is the basis of communal life, and by abrogating his right to the personal enforcement of his security, the citizen is conforming to the fundamental principle of civilization. To surrender this right, complete confidence must rest in the community to act impartially when called upon to do so, and in this respect the police and other local guardians of the peace have the confidence of the individual.

The last main statutory obligation, that of providing poor relief, lies in a different category to the other services. A section of the population which is destitute and is not adequately provided for, is a burden both upon the economic and social structure of a country. This problem can best be met by the provision of financial assistance upon the decision of those most intimately acquainted with the circumstances of the recipients, and upon the local authority this duty devolves. It is not only the provision of relief which matters, but, more important, the pro-

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vision of an adequate amount of relief, and it is in this latter respect that the local authorities are so well able to judge. The administration of public moneys for non-revenue producing services is an onerous duty and requires careful consideration. The local government of this country, with few exceptions, has most adequately fulfilled this obligation.

A highly important social service which has developed rapidly since the beginning of this century, and one which has caused a revolution in the previous practice, is that of housing the working classes. This function is really an adjunct to the public health service, for with the increased activity of local authorities in the demolition of slum property, it became necessary to provide suitable and modern accommodation for the dispossessed tenants. Vast new housing estates have been erected, under the control of the municipality, and many (not yet enough) good houses at low rents have been provided for the poorer classes. These low rents, coupled with the interest which as landlords the local councils take in the welfare of their tenants, have done much to ameliorate the conditions under which this section of the populace lives.

Local authorities, in addition to performing these statutory and basic duties, have been permitted and encouraged by the State to extend the scope of their activities over a much wider field by means of Private Bill legislation.

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In all these matters the ratepayer's money is expended—on the whole for the public good.

No less important than the expenses borne by the rates is the consideration of the local authority's control over its finances. The expenditure of local authorities during the year ending March 31, 1934, reached a total of over £445,000,000. Local authorities' gross outstanding loan debts had risen to £1,400,000,000. Of this sum no less than £400,000,000 is represented by publicly provided houses and nearly £500,000,000 by public utility undertakings like water, gas, electricity, transport and harbours. The number of authorities having financial transactions in 1932-3 was 11,491. It is obvious, therefore, that expedients should be devised for controlling expenditure and endeavouring to devise some means for safeguarding the interests of the ratepayers, for it is admitted on all sides that the social legislation of to-day is steadily impinging on the local sphere, and in these circumstances rates and taxes strictly apportioned according to income may be forced upon us.

For these reasons attention is being given to the questions of the rationing of rates. Local authorities generally are increasingly being urged to cut the coat according to the cloth, and not to regard the ratepayer's pockets as bottomless. The administrative control of expenditure out of the rates involves almost a constant conflict between advocates

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of continuous development, on the one side, and of reduced rates on the other.

Such considerations naturally lead to a review of the special circumstances of the distressed areas. The problem is outlined in these pages, and the methods adopted for dealing with it have been presented, together with the illuminating Reports of the Special Commissioners.

The simplification of the system of local authority finance beginning with the passing of the Rating and Valuation Act, 1925, was continued in the Exchequer Grants under the Local Government Act, 1929, providing block grants calculated on a formula which is at present on trial, to see whether it fulfils the avowed intention of Parliament to distribute these Grants according to local needs and not empirically. The basis of these Grants has been considered. It is sufficient here to note that the underlying principle of these (or any) State Grants is of course in the political sense—the recognition of national service derived from local expenditure.

But when all these schemes have been considered it has to be admitted that in recent years local and national affairs have become completely entangled, and it is yet claimed that rates are being made to carry a burden which ought to be on the broader shoulders of taxes, especially for relieving unemployment cases. But, in any case, critics allege that rates have ceased to be properly related to the citizen's

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capacity to pay, and the most reasonable alternative it has been suggested is a local income tax or an extension of the national income tax ear-marked for the purpose of meeting the expenditure of local authorities. Empty property, except in the City of London and in Scotland, is still not rated.

The audit of income and expenditure out of rates has recently been the subject of legislative revision in the Local Government Act, 1933, and we may hope for steady improvement in the audit provisions of the smaller town councils who have not previously had an expert audit.

But the acid test of all these considerations is this: Does the ratepayer get value for his money? The publication of the annual local government Budget almost invariably produces complaints against the rates proposed, but when practical suggestions for reductions are invited, the response is rarely adequate. These incidents show the importance of getting the best staff, and permitting more of the rank and file of the junior officials and of the general body of the ratepayers to see for themselves the organizations and services which they are called upon to administer and to maintain; and the importance of attracting a greater number of responsible and experienced men and women to take an active part in local government affairs.

In the direction of an improved service on the official side, there is progress to report.

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A Departmental Committee on the qualifications, recruitment, training and promotion of local government officers was appointed by the Minister of Health under the chairmanship of Sir Henry Hadow in September 1930, and issued its report in January 1934. The committee expressed the opinion that the time had come for considerable revision of the present system of recruitment and training of officers. Under the heading of recruitment, the committee first made some general proposals. All vacancies for the local government service should be widely notified. The rule against canvassing should be strictly enforced.

Other points dealt with referred to the following matters :—

(1) Clerical officers should be recruited at 16 years and should possess the School Certificate.

(2) Professional and technical officers should be taken from the best qualified man or woman, whether from inside the service or from outside.

(3) Qualifications of Principal Officers. A legal qualification should not always be a condition of appointment as clerk to a local authority, particularly to a large local authority, administrative qualifications being more important.

(4) For officers proposing to remain on clerical or administrative work, an examination would have to be devised, and the committee suggested that local authorities should combine to secure the establishment of an examination on the lines of the Diplomas in Public Administration granted by certain Universities, but of a less advanced standard.

(5) An Establishment Committee should be constituted by every local authority to whom should be referred all

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questions affecting the recruitment, qualification, training and promotion of officers.

(6) A Central Advisory Committee should be set up having amongst its functions the suggested grouping for regional examinations and the co-ordination of discussions with educational bodies.

Such organizations as the Institute of Municipal Treasurers and Accountants (Incorporated), the Institution of Municipal and County Engineers, the Royal Sanitary Institute, the Institute of Public Cleansing, the National Association of Local Government Officers, and the Incorporated Association of Rating and Valuation Officers, with their systems of examination, help greatly towards the creation and maintenance of experts in local administration. The Institute of Public Administration constitutes a common ground for educational study by both the civil and local government services.

The Universities of London, Leeds, Liverpool and Sheffield provide a Diploma in Public Administration. The University of Manchester provides both a Degree and a Diploma.

The Irish Free State has, however, gone a step further. The Local Authorities (Officers and Employees) Act, 1926, established Local Appointments Commissioners. They are charged with the duty of selecting the persons to be appointed to situations in the employment of local authorities, and make other provisions for ensuring the appointment of suitable persons to such situations. The Commis-

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sioners are three in number, and are appointed by the Executive Council. The Act applies to the chief executive office under the local authority; to offices the qualifications for which are wholly or in part professional or technical, and such other offices as may be declared to be offices to which the Act applies. The Commissioners are empowered to prescribe generally with the consent of the appropriate Minister the qualifications for all officers to which the Act applies, including qualifications as to age, character, education, training, experience and sex. Whenever possible such selections are to be made by competitive examinations. The Commissioners may dispense with the competitive examination with the concurrence of the appropriate Government Department in cases where the office cannot be satisfactorily filled by competitive examination. The Act also gives the local authorities, or the Minister for Local Government, powers to suspend, pending inquiry, any local official who is unsatisfactory or misconducts himself. In the period from the passing of the Act to March 31, 1934, over 1,850 appointments were made on the recommendations of the Local Appointments Commissioners.

The Civil Service in this country benefits from the fact that all the Government Departments are grouped for purposes of appointments. Prospective candidates know that a selection will be made each year, and in that way a definite

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market is provided for ability, which itself attracts ability.

Efficient methods of promotion are equally important—competent and impartial; and competent means competent for the job either of making appointments or holding them and impartial means not only free from favouritism, but (even more important) free from indefinite personal likes and dislikes of qualities as well as persons; one man, for instance, may be too much impressed with address; another with bubbling confidence, another with respect, another with caution and the like. In particular, a strong and general body of opinion needs to be established which recognizes as right the appointment of the person of proved exceptional ability, regardless of seniority. It is usually found in any staff of size that there are a few men, perhaps one man, who stand out as exceptional administrators, usually more because of inherent qualities than acquired education, and success may largely depend on placing these men early in posts of high responsibility. Is there anything harder than judging men?

It is a nice question which is the more wasteful—retaining men unfit for their posts, or keeping in lowly positions men exceptionally fitted for high responsibilities.

The importance of giving opportunity for officials to visit the institutions, works and undertakings, cannot be over-estimated. If it is true that sound

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economy is often to be found in wise spending, it is equally true that a sound administration is to be found amongst those officials who, by actual knowledge, are able to visualize the problems and difficulties which they are required to solve in their day-to-day work. Consequently, therefore, rate-payers and officials alike should not only be encouraged but should be invited to visit sewage works, trading undertakings (including the watersheds at a distance from home) and the various institutions within and without the local area. The ratepayer who has witnessed the vast enterprises which he contributes his quota to maintain will be more understanding and therefore more willing to provide these funds; while the rank and file of the officials will have a greater pride in the works which they help to administer, if they have the opportunity of viewing them in operation.

While, therefore, the central government of the country may excite the interest of the majority of the people to a greater extent than does local government, the reason for it is hard to explain. It is, after all, the local government of the country which attends to their more intimate needs, and it might be thought, with justification, that popular interest would centre around that section of the government of the country with which it is more closely acquainted. This, unfortunately, is not so, and local government does not receive the recog-

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nition of the merits of its activities which it is entitled to expect.

The real need in local administration to-day is a greater civic pride. Ratepayers should somehow or other be roused to take a keen and active interest in their local affairs. They have inherited a trust which can be traced in direct line back to their Saxon forefathers. Remembering this great tradition, and the ever-widening scope of its opportunities for service, the local government field is one which in particular the younger men and women should develop in its various phases of service.

"No country in the world," said His Majesty King Edward VIII, when, as Prince of Wales, he broadcast from a mass meeting at the Albert Hall, London, "has developed its social services to the extent that we have, or devotes so much money to their provision and efficient performance. . . . There is an enormous call at the present time for personal service—a call that is increasing. . . . Do not stand aside and leave it to others, for the opportunities are at your threshold, in every town and village wherever you may live."

If we each accept this appeal to do our part to achieve still greater and better things, whether as elected or co-opted members, irrespective of sex or creed, then we shall give an affirmative reply to the question whether an adequate return is secured for the expenditure of the Ratepayer's Money.

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